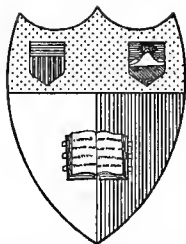


ASIA

Wason
HB171
G 22



Cornell University Library

Ithaca, New York

CHARLES WILLIAM WASON

COLLECTION

CHINA AND THE CHINESE

THE GIFT OF
CHARLES WILLIAM WASON
CLASS OF 1876
1918

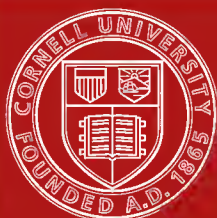
Cornell University Library
HB 171.G22

Simple truths :the English version of a



3 1924 023 893 096

was



Cornell University
Library

The original of this book is in
the Cornell University Library.

There are no known copyright restrictions in
the United States on the use of the text.

SIMPLE TRUTHS:

THE ENGLISH VERSION

OF

A Small Treatise on Political Economy

For the Information of Chinamen.

Chas. H. Mason
11/1/16

WRITTEN BY

C. T. GARDNER, C.M.G., F.R.G.S., M.R.A.S.,

H. B. M. Consul at Amoy,

And Translated into Chinese by the Rev. J. Sadler.

SECOND EDITION.

LONDON :

HARRISON AND SONS, 59, PALL MALL, S.W.,
Booksellers to the Queen and H.R.H. the Prince of Wales.

1899.

G

Wason
HB171
G22

W 3467

P R E F A C E.

THE origin of this little book was as follows: A friend of mine, with whom I had had frequent conversations on economic subjects, remarked to me on the utter ignorance of the Chinese, of all classes, of the rudiments of political economy, and stated that, in his opinion, the educating them in this respect would be a most useful work of philanthropy, and he urged me to write a simple book on the subject in Chinese; other friends having made a similar request, I at length determined to undertake the work, and placed myself in communication with the Society at Shanghai for diffusing useful knowledge among the Chinese. On looking over the list of subjects, on which the Society wished short essays, I found many were connected with political economy, and I therefore made up my mind to write sixteen short essays on the subjects, and kindred subjects, proposed by the Society, in such a manner that the sixteen essays, when taken together, should form an elementary treatise on political economy. My friend, the Rev. Mr. Sadler, kindly undertook the labour of translating my English manuscript into Chinese, and was good enough to request that the English version should also be published. To this request I have acceded with considerable misgivings, as I make no pretension whatever to have anything new to say on economic subjects, and all I have written will doubtless, though new to the Chinese, be trite and stale enough to English students of political economy. I have as far as possible avoided all matters on which there is controversy, and where I could not avoid them I have refrained from expressing my own views, and have endeavoured to give fairly the arguments on both sides. Several

English friends, besides Mr Sadler, have also requested me to publish the English version. One of these friend's arguments made me overcome my misgivings: "Don't hesitate to publish, because all you have to say is trite and what every economist knows and agrees on; that is just what busy people, who have not much time to read, want. Most books on political economy are taken up with discussing very profound subjects and controverting the errors of other economists. What we busy men want is a short book, in simple language, showing the first principles on which all economists are agreed."

I therefore print this book with three hopes: first, that it may be of benefit to Chinese who read English, and through them to the rest of their countrymen; secondly, that it may interest some of my many European and American friends in these regions; and thirdly, that the sale of copies may be of service to an admirable institution.

CHRISTOPHER THOMAS GARDNER.

Amoy, 1st April, 1898.

TABLE OF CONTENTS.

	PAGE
INTRODUCTION.—Wealth, the uses of, the acquisition of, diffusion of. Division of labour, interchange of commodities, saving of labour, money, credit, rent, &c., honesty, co-operation, education, demand and supply, producers and consumers, taxation, administration, diffusion of wealth, charity—theory and practice both necessary	1
CHAPTER I. DIVISION OF LABOUR.—Benefits of, how to secure, liberty of industry. Freedom of emigration and of immigration. Privileges to aliens. Religious toleration. Degree to which division of labour can be carried. The maxims of political economy act and react upon one another	11
CHAPTER II. INTERCHANGE OF COMMODITIES. — Benefits of, benefits of external freedom of exchange greater to small than to large areas. Judicious buying beneficial as well as judicious selling. Deleterious commodities. Imports in payment of debt. Comparative wealth of nations. Hindrances to the exchange of commodities. Fallacy of the “mercantile theory.” Consumer pays the taxes on commodities. Benefit of free exports and free imports	27
CHAPTER III. SAVING OF LABOUR.—Benefits of saving labour. Machinery. Saving labour in production, in distribution, in transmitting messages. By the use of money and by credit. In calculations. The Latin union. Examples. Opposition to introduction of machinery. Fallacy of objections. Machinery raises standard of living, but entails dislocation of trade and temporary suffering. Modes of fostering saving of labour	41
CHAPTER IV. MONEY.—Necessity of a medium of exchange. Different kinds of money. Axioms as to best forms of money. Coins, convenience of. Gold and silver coins. Standard of value. Depreciation of silver. Bimetallism. Fluctuation of exchange	57

CHAPTER V. CREDIT.—Mutual trust a source of wealth. Good laws and administration necessary to increase trust. Banks and pawnbrokers. Bank notes. Negotiable instruments. Cheques. Bills of exchange. Marginal credit. Bills of lading. Warehouse receipts. Personal security. Mortgages and vifgages. Letters of credit	69
CHAPTER VI. LOANS.—Lending a proprietary right. Loans of money. Usury laws. Interest. Loans of immovable rent. Loans of movables. Hire. Loans of abilities and strength. Salaries and wages. High wages not necessarily dear work. Lockouts and strikes. Salaries. Loans of locomotion. Fares and freights. Postage. War between capital and labour. What is capital?	81
CHAPTER VII. HONESTY.—Honesty the foundation of credit. Penalties for dishonesty. Penal codes. Forgery. Arson. Barratry. Adulteration. Breach of trust. Breach of contract. Breach of treaties. Shirking work. Want of thoroughness. "Nepotism." Infringing goodwill. Trade marks. Patents and copyright	97
CHAPTER VIII. CO-OPERATION.—Co-operation in China. Compulsory and voluntary co-operation. Trades unions. Guilds. Family temples. Constraint. The State as a co-operative society. Defects of Chinese co-operative societies compared with Western co-operative institutions. Friendly societies. Insurance companies. Chambers of commerce. Combination of capitalists. Co-operative production and distribution. International co-operation....	112
CHAPTER IX. EDUCATION.—Education as a source of wealth. Primitive and general education. Education should be progressive, thorough, should embrace wide curriculum, should be widely diffused. Distinction between education and instruction. Easy method of learning. Examinations. Physical education. Education affects future generation	126
CHAPTER X. DEMAND AND SUPPLY.—Demand creates supply and supply creates demand. Price, cost of production, and worth of commodities. Fair profits. Fashion and luxuries. The standard of living. How to foster demand and supply. Supply creating demand. Cheapness and over production. Interest of one nation in the prosperity of another	147

CHAPTER XI. PRODUCERS AND CONSUMERS.—Producers in primitive societies. Distributors in modern societies. Protectors of wealth. Consumers. Proportion of producers and consumers. Case of deficiency of agriculturists, of excess of agriculturists. Excess of civil and deficiency of military officers in China. Excess of yamén underlings. Number of soldiers requisite. Priests and nuns. The consuming class	161
CHAPTER XII. TAXATION.—Ten canons of taxation. Taxes on moral grounds. Taxes to protect industries. To countervail bounties. Sources of revenue other than taxation. Land tax. Income tax. House tax. Window tax. Poll tax. Legacy duties. Taxes on houses, dogs, &c. Stamps. Import and export duties. Octrois and likin. Monopolies. Excise. Sale of honours. State lotteries. Taxes on luxuries. Revenue from Crown lands, from public works, from the post office, from royalties on mines	174
CHAPTER XIII. ADMINISTRATION.—Mode of raising taxes. Farming revenue. Prevention of fraud. Rates. Mode of spending taxes. Self-preservation of State and protection. Individual rights. Inherent defect of law. Amount to be spent on various objects. How to get best value for money spent. Conscription and free enlistment. Payment in honours	188
CHAPTER XIV. DIFFUSION OF WEALTH.—Object of wealth. Greatest happiness of greatest number. Poor relief. Removing causes of poverty. Laziness, vice, ignorance, and sickness. Temporary poverty. Haussmannism. Regulation of labour. Truck and factory acts. Dangerous employments, responsibility for accidents in. Mercantile marine. State aid to industries. Subsidies. Bounties	199
CHAPTER XV. CHARITY.—An individual's duty goes beyond dictates of law. Distinction, duty of State and individual. Proper motive of charity. Mischief of indiscriminate charity. Proper objects of charity. How to ensure flow of charity. Administration of charities. The subjective value of charity	212

INTRODUCTION.

EVERYBODY desires to obtain wealth; when this desire is kept within reasonable bounds, that is to say, when it does not lead men to injure, oppress, or defraud others, it is a right desire, and is implanted in man's mind by Heaven, in order that men should exercise the abilities they possess, instead of being idle, and idleness we know to be the parent of vice.

The uses of
wealth.

Wealth, that is, having plenty to eat, warm clothes to wear, a good house to live in, &c., is a good thing, but there are better things, such as Truth, Courage, Temperance, Gratitude, Filial Piety, Learning, Brotherly and Conjugal Affection, &c. If the pursuit of wealth is carried on by an individual, or by a nation, to the detriment of these better things, the individual or nation will really lose. We know, from history, how in the latter end of the Sung dynasty China paid too great attention to the acquisition of wealth, and how, in consequence, her government fell before foreigners—the Mongols. As Confucius says: “Wealth without righteousness is but a transitory cloud.”

On the other hand, wealth, pursued by the right means and diffused in the right manner, not only adds to the bodily comfort of people, by preventing cold and hunger, and by easing the pains of sickness by good medicines, but is also a means by which men's hearts and minds can be improved; when a country has obtained wealth it can afford a good education to its people, and every penny spent on education is two pence saved in crime; for people who are educated and wealthy are not so tempted to crime as people who are poor and ignorant. Again, when a country is wealthy, there will be in it people who have leisure to study morals, philosophy, medicine, mechanics, chemistry, astronomy, &c. Had China, in the

time of the Chows and Sungs, not possessed a certain amount of wealth, had she been as poor as the LOLOS in Szechuan, the Fan in Formosa, or the Li in Hainan, all the energy of all the people would have been spent in obtaining the necessities of life, and Confucius, Mencius, and the sages could not have written the "Five Classics," and Choo Hi could not have written his commentaries.

The acquisition of wealth.

There are some rules for obtaining wealth which are as universally true as that 2 and 2 make 4, or as that 975 times 562 make 547,950. Some of these rules are as obviously true as that 2 and 2 make 4; others, equally true, require study and thought.

There are other rules for obtaining wealth, true in theory, but which can only be put in practice under certain conditions. If, therefore, the study of how to obtain wealth for a country is to have beneficial results, two things have to be considered; first, what are the principles, acting on which the wealth of a country can be increased; secondly, how far it is practicable to apply these principles in any given country.

Diffusion of wealth.

After having considered how a country can acquire wealth, we should think what steps can be taken so as to diffuse the wealth among the inhabitants in such a way that the greatest possible number of them may be comfortable and happy. If the whole wealth of a country is in the hands of a few rich men, and the rest of the people are hungry and poor, the wealth of that country will not be secure. The poor will envy the rich and will rise in revolt; there will be riot and robbery, and in the disorder much wealth will be destroyed. This has frequently happened in China; when there has been a famine, the poor hungry people have taken to brigandage and robbery.

In speaking of the diffusion of wealth, it is not meant that wealth should be equally divided; this would not be possible, even if it were right, and would be wrong, even if it were possible. A sable coat is valuable when it belongs to one person, but its value would be destroyed if it were cut up and divided among a thousand persons. A handsome well-built

house is valuable when it belongs to one family; its value would be destroyed if it was pulled down and a brick given to each of 10,000 persons. A poor man, if he has a warm wadded coat and a cottage that keeps off the rain will, it is true, envy the rich man who has the sable coat and the fine house, but he will not generally try to rob the rich man; what he will generally try to do is to work hard to save money to buy a coat and house as nearly like the rich man's coat and house as he can. As long as everybody in a country can obtain the necessaries of life, with a reasonable amount of comforts, it is a good thing there should be inequality of wealth as it induces men to exercise industry and frugality in order to become rich.

During the last 200 years a great many learned men in Europe have studied and thought over the ways by which nations can be made rich. On certain principles there is an unanimity of opinion; in fact many principles can be mathematically proved to be true. The following are universally admitted as principles that increase the wealth of nations. Some of them are as obvious as 2 and 2 make 4, but they will lead to truths not so obvious, just as the principle that 2 and 2 make 4 leads to complicated truths in arithmetic.

1st. There should be a "*Division of labour*," that is, a man should not try to do everything; one man should take to agriculture, another to study, another to soldiering, another to shipping, another to be a merchant, another to be a huntsman, &c.

Division of
labour.

2nd. There should be a "*Free interchange of commodities*," as Mencius says, that is, that the rice grower should be able to exchange the rice he has grown more than he can eat for, say, a piece of cloth the cotton spinner has woven more than he can wear.

Free inter-
change of
commodities.

3rd. There should be "*Saving of labour*." For example, a man can more easily dig up ground with a spade than with a stick; it therefore increases his wealth to use a spade for the purpose instead of a stick.

Saving of
labour.

4th. There should be a "*Medium of exchange or money*." If a man grows more rice than he can eat, he wishes to exchange

Medium of
exchange.

the surplus for many things, such as tobacco, shoes, clothes, &c. It is much more convenient, as it saves labour, if he can sell his rice for money, and with the money buy tobacco, shoes, clothes, &c., than if he had to take his rice round to the various people, whose articles he wanted, to barter his rice against their goods.

Credit.

5th. There should be *Trust or Credit* between man and man; when a person makes a bargain, especially if it is a big one, he cannot carry the money with him to pay for it. The seller trusts the buyer's promise to pay, and gives him the article, or the seller accepts Bank notes, that is, he trusts the Bank's promise to pay, for a Bank note is nothing but a promise to pay, or he accepts cheques or Bills of Exchange, in which case he is trusting the drawers or drawees of the cheques and bills.

Rent, &c.

6th. It increases the wealth of a country if LOANS are facilitated. A man has a field, a house, a horse, or money which he does not wish to use himself, so he lends it to someone who does wish to use it; that someone gets a profit out of the use of the land, house, horse, or money, part of which profit he gives to the lender. The part he gives to the lender is called rent, hire, and interest, &c.

Honesty.

7th. *Honesty* increases the wealth of a nation. If a lender has implicit faith in the honesty of a borrower, he will lend him land, houses, horses, or money at a less charge for the use of the article than if he has misgivings on the subject. If he doubts the borrower very much he will not lend to him. A man reputed to be dishonest cannot borrow money so readily, nor on such easy terms as a man reputed to be honest. There are many ways in which honesty increases the wealth of a nation. For example: European Insurance Companies will not ensure Japanese ships against shipwreck, unless these ships are commanded by European or American captains, and European Fire Insurance Companies will not insure Chinese shops in Chinese cities against fire, partly because they do not trust the honesty of the Japanese captain and Chinese shopkeeper, and this places

the Japanese shipmaster and the Chinese retail dealer at a disadvantage.

8th. *Mutual help or co-operation* increases the wealth of a nation. The most simple form of co-operation is when two men work together at a piece of work, because they two together can do it more than twice as fast as each working separately could. Another simple form of co-operation is that called "morrowing," in vogue in Western Hupei. There land, instead of being held in common by the village community, is held in patches by individuals. Hwang, Li, Chang, &c., help Chên plough his land to-day on the promise of Chên's helping them plough their several lands on the "morrow" and succeeding days. More complicated forms of co-operation are Partnerships, Joint Stock Companies, Trades Unions, Guilds, Corporations, &c. Co-operation.

9th. *Education* increases the wealth of a nation, not only because it makes the workman more skilful, but because by studying arithmetic, chemistry, and mathematics, people are able to invent labour-saving machinery, by which the labour, and consequently the cost of producing and carrying about produce, is much reduced. Education.

10th. The wealth of a country is increased by encouraging the *demand and* facilitating the *supply* of commodities. We all wish for a great many things we have not got, but we cannot get them unless we are able and willing to pay for them the price that people are willing to sell them for. If many rich people want the same kind of thing, and are willing to pay a high price for it, the price of that thing goes up, until there is enough of it to satisfy the wants of the purchasers. If the desire to possess, accompanied with the power to purchase, is continuous, and the article desired can be produced in unlimited quantities, it will be produced to the extent of the desire, accompanied with the power to purchase. This is called "*Demand creating supply.*"

Suppose an article, formerly very expensive, was suddenly to become cheap, many people, who before wished for it but

could not afford it and therefore did not purchase it, would be able to afford it and would purchase it. This is called *Supply creating demand*.

Suppose a great many articles are produced, and there are only a few purchasers, the owners of such goods, rather than not sell at all, would sell at a loss for less than the articles cost to produce; and if the low price continued people would cease to produce these goods until they found out a cheaper way of making them. Low prices therefore do not enrich a nation, unless they are caused by cheapness of production. Again, when there are many purchasers and few articles, the prices go up beyond the worth of the articles, and the holders of such articles get high profits. The price of a thing may be different from its worth. If things are sold below their worth, production is checked; if things are sold above their worth, demand is checked; high profits, therefore, do not enrich a nation if they check demand.

Producers
and
consumers.

11. The next principle on which all economists are agreed is, as Mencius says:—"The *producers* of wealth should be many and the *consumers* few."

There are various kinds of producers of wealth. There are the direct producers, such as the herdsmen, agriculturists, artisans, manufacturers. Indirect producers, such as inventors, students, mathematicians, teachers, &c.

There are distributors of wealth, such as the shopkeepers, merchants, carriers, shipowners, sailors, railway servants, &c.

There are protectors of wealth, such as the mandarins, police, military forces, &c.

There are persons who, though they do not produce, distribute, or protect material wealth, tend to make human life virtuous and joyous, such as priests, nuns, ministers of the Gospel, sculptors, painters, novelists, musicians, singers, and actors, &c. The maxim with regard to them is that the proportion among them should be a due one; too many holy priests and nuns in a country will sap the wealth of a country as surely as too many actors and acrobats.

Then there are those who only consume, such as the idle rich, beggars, and criminals. It would be a good thing for the wealth of the country if it could get rid of these mere consumers and make them all work.

12. It is necessary in order to support the mandarins, Taxation. military, police, &c., that a fund should be levied from the producers and distributors of wealth and from the holders of wealth that has accumulated. This levy is called *Taxation*; and the science of levying it in such a manner, at least to impair the wealth of a country, is called the *Economy of Taxation*. Upon this subject there is a great divergence of opinion among experts. Some principles are universally agreed on, such as:—

Taxes should be preferred which cost least in collecting compared with the amount of revenue they yield.

Taxes should be preferred which are the least burdensome to the taxpayers.

Taxes should be levied in the interest of, and expended for the benefit of, the taxpayers. The rich people are more benefited by the expenditure of the taxes than the poor, because such expenditure secures the enjoyment of wealth, and therefore rich people should contribute more to the taxes than poor people.

13. The next question that arises is called the *Economy of Administration*; or how the money collected in taxes can be best spent, so that the work of protecting wealth shall be effectively done without any waste of money; on this question it is universally agreed, in the words of Mencius, that attention must be paid both to civil and military matters. There must be a sufficient number of efficient civil and military officers, who must be adequately rewarded to obtain the men wanted, both as regards probity and ability. They must be carefully selected, and, after selection, be given adequate inducement to work their best; the army must be sufficient in numbers, well drilled, and well equipped. But neither in the civil service nor in the military service should more men

be employed than are absolutely necessary. Employing more men than necessary, not only is a waste of their pay, it is also a waste of energy that should be used in producing wealth.

In this work the principles of increasing the aggregate wealth of a country have been divided into the following 13 heads, to each of which a chapter will be devoted :—

1. *Division of Labour.*
2. *Exchange of Commodities.*
3. *Saving of Labour.*
4. *Money.*
5. *Credit.*
6. *Interest, Rent, Hire, and Wages.*
7. *Honesty.*
8. *Co-operation.*
9. *Education.*
10. *Demand and Supply.*
11. *Producers and Consumers.*
12. *Taxation.*
13. *Administration.*

After having considered the best means of acquiring wealth, we should consider the best manner of diffusing it, so as to obtain the result laid down in the common but somewhat inadequate saying, “*The greatest happiness of the greatest number.*” An equal diffusion of wealth is impossible, and a too unequal division of wealth, when most of the wealth of a country belongs to a few persons, is dangerous. We have to consider how the poor are to be given a share of the wealth of the country. This is done in two ways: first, on grounds of public good, in which case the aid to the poor should be given by the State from the taxes or rates; secondly, from motives of sympathy and benevolence, in which case the help is given by individuals voluntarily from their private resources.

The first mode of diffusing wealth may be called the diffusion of wealth by law.

This can be done in several manners, for instance, by poor

laws, ordering that the poor should be fed, clothed, housed, or given money at the expense of the community, by educational laws enacting that the poor shall be taught at the expense of the community. By factory laws laying down that workmen and workwomen shall be given wholesome places to work in, fixing their hours of labour, ordering the employer to give them compensation in case they are injured in the employment, and by laws in which it is decreed that State aid shall be given to certain industries. For example, it is a great advantage to a country to have ships and seamen of its own; how far is it right to tax the whole community to give money to shipowners? The maxims generally agreed on by economists are, that, while it is right in the public interests to prevent the poor dying of starvation, *help should not be given the poor lavishly enough to encourage pauperism*; while the poor should, when necessary, be aided in the education of their children, *care should be taken not to destroy the parents' sense of responsibility of providing themselves the education necessary for their children*, and that while factory laws should protect women and children from the greed of their relatives and employers, grown up men do not require so much protection; each factory law must be judged by the peculiar nature of the work it is desired to legislate for; and, lastly, that while it is wise to foster native *nascent industries*, it is not wise to nourish *moribund industries*; in all cases *such aid should be either temporary, or given from motives of public policy, irrespective of economy*. The diffusion of wealth by law will be treated of in Chapter XIV.

Lastly, in Chapter XV will be treated the *Diffusion of wealth by individual benevolence* or the *organisation of charity*. Charity. There are lazy bad people who will, if they can, live by begging, and will not work if they can help it. To make a country wealthy it is necessary that all who can work should work. If charity is misdirected and encourages idleness, it is mischievous; on the other hand, charity well directed increases the wealth of a country. Say a workman breaks his leg; if

charity supplies him with good medical treatment, he will get well in a short time and set to work again ; if charity does not help, he may either die, in which case his strength is lost to the community, or he may be ill for a long time, and a portion of his strength will be lost to the community.

If a rich man is wise, as well as liberal in his gifts, his generosity will do good, both to the individual and to the community. If he is foolish in his gifts he will do harm both to the individual and to the community. If he gives wine to a man half tipsy, he will not only do that man an injury, he will also injure the community, as the man, maddened by drink, will very likely destroy property and assault people.

The fundamental maxim with regard to charity, on which all economists are agreed, is :—“ *The best help to be given the poor is a help that will enable them to help themselves to be independent of charity.*” The ideal to which we should press forward is that there should be such wise charity so largely exercised that the necessity for charity should cease.

**Theory and
practice.**

In conclusion, the science of political economy will not in itself make a people wealthy. To the study of the science must be added thought and experience as to how to apply the principles learnt. If we do not study the principles we shall make mistakes. The wisdom of one man is limited ; by study we reap the wisdom of many, which is greater than the wisdom of one. Having studied the wisdom of many we have to think how to apply it, for the mere study without thought and experience is apt to degenerate into pedantry. Thought and experience without study leads men to wrong and mischievous conclusions. As Confucius says :—“ Learning without thought is useless, thought without learning is dangerous.”

CHAPTER I.

Division of Labour.

IF a man attempts to do too many things, he will not do any of them well. If, for instance, he himself produces all the things he requires, he will only have a very few things. If he tries to grow his own rice, breed his own goats, grow his own cotton, weave it into cloth, dye it, grow his own indigo, prepare it, shape and cut out his cloth, make it into clothes, dig out iron ore, smelt it, make ploughs, rakes, hoes, spades, needles, build his own house, grow his timber and make the timber into beams, planks, handles of spades, axes, &c., make his own tiles, he will find it impossible to do all these things. There have been people who have tried to do everything for themselves, but they have been very poor, they have had bad houses, bad food, bad clothes, no books, no paper; they have only been able to provide themselves with the barest necessities of life, and have had no comforts, still less luxuries.

Benefits of
division of
labour.

There have been tribes among whom there has been very little division of labour. These tribes have lived by hunting and fishing, but having only rude implements for killing game and catching fish, in times of scarcity have killed and eaten each other; more shocking still, only the strong men and women were able to hunt and fish, so directly persons became old and infirm they were killed and eaten.

Further, hunting requires that there shall be wild beasts to hunt, and wild beasts only exist where there are large tracts of uncultivated country; where there is agriculture, a few mow of rice land will feed many people; where people are entirely dependent on hunting, it requires many hundred mow of hunting land to feed one man.

The first thing to make people rich is *Division of labour*, that is, various men must devote themselves to various occupations; by this means a man becomes skilled in the occupation to which he has devoted himself, and can do more work.

The simple forms of division of labour take place all the world over in every household. The father of the family does the heavy work in the fields, the mother does the lighter work in the fields, rears silkworms, chickens, or pigs, weaves and dyes the cloth, makes the clothes for the household, &c. Each of the children assists to the best of his or her capacity in various ways. Stretch the household into a clan or village community, and we find there is a still further division of labour. The majority of the clan will be engaged in agriculture, according to the nature of the soil, growing rice, wheat, potatoes, cotton, &c. Others will become blacksmiths, carpenters, &c., others coppersmiths, others will study and become schoolmasters, others will make paper, &c. Each man, being engaged in a special work, will attain special skill in that work, and the community will be able to produce more and better things by a division of labour than if each man attempted to do everything. Add to one village community many other village communities, and there is a still further division of labour, producing still greater wealth.

The reason this takes place in the household, village community, and district is obvious. By the division of labour more and better articles are produced in the family, village community, and district than could have been produced without division of labour, or, in other words, the wealth of the family, village community, and district is increased by division of labour. The same principle holds good when many districts are joined into a province, when several provinces are joined into a nation; and when all the nations of the world are connected by commerce, the province, nation, and world are enriched by division of labour.

How to
secure
division of
labour.

To ensure division of labour being a source of wealth it is necessary that *each person should, in the sphere of his activity,*

do the work for which he has the greatest aptitude and capacity. Liberty of industry.
 In the household it would be absurd to set the strong man to do the light work and the weak women and children the heavy work. In the village community it would be absurd to make a blind man the barber, or an ignorant man the schoolmaster.

In choosing what work a man should do, his capacity has to be considered. If in a village community a member can make 200 cash a day by making pots, and only 50 cash a day by growing rice, it would be much better that he should make pots than grow rice. Suppose there are two men, and it is necessary that one should make pots and the other grow rice, and suppose one of these men was clever in growing rice and stupid at making pots, and the other clever at making pots and stupid at growing rice. If these two men worked each at what he was clever at, they would grow richer than if each worked at what he was stupid at. How is one to find out what a man is clever at and what he is stupid at. There is only one way. Let him try, that is, *there must be liberty of industry.* If a family forces all its members to grow rice, when some of them would do better by making pots, that family loses. The same holds good with a village community, district, province, nation, and the world. *There should be liberty of industry.* All men should be allowed to do the work for which they are best fitted. In some countries the hard work of agriculture has been done by slaves, who have been compelled to do the work not for which they were best fitted, but which their masters told them to do. These countries have not grown as rich as the countries in which there has been freedom of industry. One reason for this is plain; the slaves, sure of food and clothing, worked no harder than they were obliged, and they worked badly, not only because they did not gain by the goodness of their work, but because often they were set to work they had no aptitude for. In some countries people who have committed crimes, have been punished by being forced to work and given no wages, only fed and clothed; it has always been found that their work costs more than what is done volun-

tarily by people working for wages and supporting not only themselves but their families also out of their wages.

Liberty of industry entails: 1st, that a man shall not be forced to labour on work for which he is unfitted; 2nd, that he shall not be debarred from work for which he is fitted.

In parts of India, at one time, certain work was only allowed to be done by certain families. Thus certain families engaged in agriculture, others in carpentry, and others in brass work; and no son of an agriculturist was allowed to be a carpenter or brazier; the consequence was those parts of India were very poor.

In Corea no one but the nobles are allowed to become officials, and the nobles are not allowed to engage in trade or manual work. This, in spite of the richness of the soil in Corea, the good climate, and the plentiful deposits of gold in the country, has kept Corea miserably poor. The number of nobles who do nothing, and therefore only consume the wealth of the country and do not produce anything, is very large. The number of officials is enormous, and as the people are heavily taxed to pay the salaries, they are very discontented, and are constantly rising in rebellion. The nobles having the monopoly of government offices do not take the trouble to learn to govern well.

In China, on the whole, a man has liberty of industry. Men are not generally forced to join a trade they do not like; but even in China there is an interference with the freedom of industry, checking the increase of wealth. There are guilds and trades which will not admit outsiders into their profession, that is, which debar men of capacity entering it. Take for instance the crockery makers of Kiangsi and Kwangtung. The crockery trades of these two provinces are distinctly suffering from this exclusiveness. They work along the old grooves and in the old manner, and do not improve, nor introduce new methods and designs; indeed so far from improving, the workmanship is decidedly deteriorating; the consequence of this is that Japan is ousting them. The

Japanese crockery is not only sold in larger quantities, but the better qualities fetch higher prices; and not only this, but by improved processes the Japanese are able to produce the common crockery at a less cost, and are underselling China abroad. China is thus losing a source of wealth.

Further, to ensure freedom of industry a man must be allowed to work where he wants to work, and for this purpose he must be allowed to go where he wants to go. In other words there must be *Freedom of emigration*.

Take first the household. It would be manifestly absurd to say that the members were only to do work in the house; if that were made the rule, it is manifest that all tilling the ground would be impossible. It would also be manifestly absurd to prevent a man going to see his neighbours. By going and looking at the way his neighbours work, he gains knowledge and experience, and he becomes a better workman. If his neighbours get good results with certain tools or manures, or by sowing the seed at certain times, it is to the advantage of the household that it should know the way other households work. So too with regard to village communities, it is to the advantage of such village communities that some of its members should visit other village communities and see how they do their work, so that if a man finds that other village communities have better ways of tilling the ground, spinning cotton, preparing indigo, &c., than his own, he may be able to tell his villagers all about these better ways. It also often happens that the harvest in one place is bad, and that there is not enough food in the neighbourhood to support the village community; some of them *must* go to other places to earn a living. The same principles hold good with a district, a province, and a nation. There should be *Freedom of emigration*.

Freedom of
emigration.

For many years China, and other countries too, made the mistake of not allowing her subjects to go abroad, and by this means lost a good deal of the wealth she might otherwise have acquired. At one time Chinese travelled about more than Western people, and during that time China was richer than

Western people. Confucius, Mencius, and the other sages travelled from state to state, and were able to tell the rulers and people of various states in what things other states surpassed or fell short of the state wherein they happened to be. By this means it came about that "good was made an example and evil a warning." In those days China was ahead of Western nations (except Rome and Greece) in knowledge, and, as knowledge is a source of wealth, in wealth too. At one time China was the only nation that knew how to make gunpowder, the art of printing, rearing silkworms, spinning silk, planting and preparing tea, making crockery, &c. But by-and-bye European people also travelled, and they learnt all the Chinese knew—how to make gunpowder, how to print, how to rear silkworms, &c., and besides what they learnt of China they found out some things for themselves—how to fuze metals, how to spin cotton and weave cloth, &c. They also learnt things from other foreign countries besides China, by which they were enabled to enrich their own countries. Thus the Englishman who travelled in Spain learnt from the Arabs there the sciences of arithmetic, algebra, and chemistry. From the Italians he learnt banking, &c. By combining all the knowledge possessed by all nations the knowledge of each can be improved upon.

Freedom of
immigration.

Freedom of industry not only requires that a man should be able to go where he likes; it also demands that he shall be allowed to come where he likes, or in other words, besides freedom of emigration *there should be freedom of immigration*. Not only should a nation allow its subjects to go abroad, it should also allow foreigners to come to its country.

Take first the household. In China a household that has no son, often adopts a boy and brings him up as a son. A family often admits a scion of another family as a member. A village community sometimes admits outsiders into the community. How often has it happened that the outsider so admitted has been a most profitable son or member. Shun was not the natural son of Yao, and the Great Yu was not the natural son of Shun.

In the time of the Tang Dynasty the English were very poor, and the wise king invited learned Frenchmen to come to England to teach them. In the time of the Ming Dynasty the Russians were very poor, and the wise Emperor of the Russians invited numerous foreigners to come to Russia to teach his people; later on the wise King of Prussia, the ancestor of the present Emperor of Germany, invited learned foreigners to his Court. Kang-hi and Kien-lung invited learned foreigners to their Courts, and these foreigners taught the Chinese many things which have increased the wealth of China, such as astronomy, making cloisonné, &c. Afterwards Chiaching expelled the foreigners from China, and China became poorer.

The more different kinds of skill and talents a family, a district, a province, or a kingdom can utilise the richer will be that family, district, province, or kingdom. The people of different districts and provinces have different kinds of skill. One of the reasons China has been as rich as she has been is because the Government career has been open to men of all ranks and from all parts of the empire; further, because the higher mandarins have to serve in provinces different from their own, and have thus been able to avail themselves of the skill and abilities of men of different provinces. Foreigners have different skill and abilities from those of the Chinese, and China would grow wealthier if she utilised the abilities of foreigners more than she does.

Though a nation becomes wealthier by allowing foreigners to come to its country, there is an exception if the foreigners are bad men, who corrupt the morals of the people; the disadvantages of allowing such men to come into the country are greater than the advantages. Or if they are incorrigibly lazy, or too weak to work, it is unwise to allow them to settle in great numbers in the country and to consume there more than they produce. Most Western States have wisely made a rule not to admit within their countries criminal and pauper aliens.

It increases the wealth of a nation, in order to avail itself to the full of the abilities of foreigners, to give aliens all the rights and privileges of citizens, but this is a principle which, though true in theory, can only be put in practice under certain conditions. It would be impracticable to carry out this rule to its full extent in China. Chinese and Western people are so unlike that they cannot be treated exactly in the same way. The laws of China are not suited to Westerners. It is necessary that Westerners in China should have separate judicial courts to which to be amenable. At one time this arrangement, of separate courts for foreigners, was very general all over the world, that is, foreigners visiting a country were amenable to their own officials, Consuls, &c., rather than to the local tribunals; even now this holds good to a certain extent with regard to foreign ships. But as Western laws and administration became more uniform, extraterritoriality was gradually abolished. As long as extraterritoriality existed and for some time after, all foreigners in Western lands were under similar disabilities to those foreigners are under in China. For instance, they were not allowed to hold land in the interior, nor to travel in the interior without passports.

The axiom as to the treatment of foreign immigrants is: *"It increases the wealth of a country to allow all foreigners, with certain exceptions, such as criminals and paupers, to visit and reside in the country, and to give them as many privileges and to place them under as few disabilities as the conditions of the country will allow."*

As each country knows its own conditions best, each country should make its own laws as to the privileges it gives and the disabilities it imposes on foreigners. The greater the facilities a country is able to give, and the fewer disabilities it is constrained to impose, the more it will increase its wealth. America and Great Britain are the richest countries in the world; they are also the countries where most privileges are given to and fewest disabilities imposed on foreigners.

It is often said: "Foreigners make a lot of money in the

country and then take the money home and spend it and thus take away the money from the country." Those who say this do not reflect that to earn money in a country, money's worth must be given to that country. The Chinese who went to Canada saved as much money as they could and brought it back to China to spend. But Canada was not poorer but richer from the Chinese being allowed to go there. They built the railway across Canada, quicker, better, and cheaper than it could otherwise have been built. By means of the railway vast tracts of country were opened to grazing and agriculture which were hitherto waste. Large factories were established for catching and canning fish in the interior of Canada, which could not have been done but for the railway to carry the canned fish to the markets. The case of Canada is simple, because the class of Chinese who went there made things that can be seen. Singapore and Hongkong have also grown rich by the free immigration of people of all races. The Chinese who go to Singapore do not all engage in artisan work; many of them are shopkeepers and merchants, and compete against the British shopkeepers and merchants; they do the work they have talent to do. So it is with Americans, Germans, Frenchmen, and men of all nationalities. They can all go to Singapore and Hongkong and engage as freely in trade there as British subjects and have there all the privileges British subjects have. In Singapore and Hongkong they all gain money in what they have most talent for. They most of them save their money to spend in their own countries. It is true they take money away from Hongkong and Singapore, but the work they do there is worth more than the money they take away, and Singapore and Hongkong are richer from their presence and from the privileges given them. There is another way a country gains by admitting foreigners. Thus the Chinese who go to Singapore get a taste for foreign goods, such as soap, socks, needles, fish, and when they come back to their own country they introduce these things among their friends, who also acquire a taste for them, and a big trade

springs up. Thus now Singapore imports fish into Amoy to the value of hundreds of thousands of Taels a year.

Freedom of Industry also entails that we must not debar a man from work because he has different opinions from ours, or in other words, there must be *religious toleration*.

In a household it would be manifestly absurd not to allow a son to work in the fields, because he thought the world square and the father thought it round. If a man makes shoes or coats well and cheaply, it is to my advantage to buy my coats and shoes of him, irrespective of whether he is right or wrong in his opinions on subjects unconnected with shoe and coat making. If a man is a good doctor and can heal me of my sickness, but is not of the same religion as I, I had better go to him and be cured than go to a man who agrees with me on religious subjects and be killed. If I go a voyage in a ship I had better go with a captain who has studied navigation than with one who has studied theology. If a people wish to be well governed they must choose as their rulers men who understand the art of government best, not men whose moral conduct they most approve of. The making religion or morality a test for employing men as shoemakers, tailors, ship captains, or mandarins, would certainly be wise if our object was the production of hypocrisy, but it is absurd, if we want, as we do, the best shoemakers, tailors, ship masters, and mandarins.

China would never have arrived at her present stage of civilisation and wealth had she not tolerated the three religions—Confucianism, Taoism, and Buddhism. And though in some books Mahommedanism and Christianity are called “perverse doctrines,” China has, to a large extent, tolerated both. She has availed herself of the talents of men of all creeds, and by doing so has increased her wealth, but in so far as she has permitted religious persecution in her borders, so far she has diminished her wealth.

History is full of examples of nations impoverishing themselves by religious intolerance.

From this cause Spain, which was once the richest and most powerful nation in the world, has become one of the weakest and poorest. The history of France gives us a strong illustration of this truth. In the time of Kang-hi, France had succeeded to the position of Spain and had become the richest and most powerful nation of Europe; in an evil hour for her, her King, otherwise a good and wise monarch, was persuaded by the Roman Catholic priests to persecute the Protestants. The French Protestants fled to other countries; every country which received them gained in wealth by doing so; in England they established the watch-making and silk-ribbon trades and other industries, which now add to the wealth of England. A long book has been written telling in detail how the various countries they fled to were enriched by them; meanwhile France grew poorer and poorer, till, in the beginning of the reign of Kia-tsing, the people were starving and rose in rebellion and killed the King and Queen, the nobles, and the priests, and for a short time prohibited the Roman Catholic religion. Then there came a wise ruler, who reinstated the Catholic religion and gave universal tolerance to all other religions. Since then France has grown richer and richer every year.

For a long time all the nations of the West kept themselves poor by a foolish persecution of Jews and Judaism, and even now in many countries the Jews are under many disabilities. The consequence is that the cleverest and richest Jews, driven by disabilities away from other countries, come to America, France, England, &c., and enrich these countries by their abilities. The Jews are the cleverest traders of the world, and some of them are the richest men in the world. The countries which treat the Jews best derive most advantage from the Jews' special abilities.

I have now explained the following maxims:—

1. *Division of labour increases the wealth of a nation.*
2. *To ensure a due division of labour there must be freedom of industry.*

3. *Freedom of industry entails that a man shall not be forced to do labour for which he is unfitted.*
4. *Nor be debarred from work for which he is fitted.*
5. *That there should be freedom of emigration.*
6. *That with certain exceptions, such as criminals and paupers, there should be freedom of immigration.*
7. *Foreigners should be given all possible privileges.*
8. *There should be religious toleration.*

Degree to
which divi-
sion of
labour can
be carried.

The next question that arises is the degree to which division of labour can be profitably carried. This degree differs according to the sphere. It is not the same in the household, village community, district, province, kingdom, and world. In a household it would be obviously absurd if the father were quite to confine himself to working in the fields, the mother to rearing silkworms, the elder daughters to rearing poultry and pigs, and the younger ones to looking after the baby. When the father is at leisure, he assists the other members of the family in their work, and so with the mother, &c. In a village community, during the summer, the members will work in the fields, but in winter they will do different work, such as chop up fuel, spin cotton, mend their tools, &c. They will, if such increases the wealth of the family or village community, each work at various things; in doing this each man will not attain the skill at one thing which he would have attained if he had only worked at that one thing. At the same time he will attain a greater variety of a less skill, and will be able to utilise his spare time, and in a small community this is more profitable than a man attaining a high skill in a speciality. In a district there should be greater division of labour than in a village community, and one man will be more able to profitably devote his attention to one thing, such as selling goods, fishing, blacksmith work, carpentry, shoemaking, &c. Increase the district to the province, and there is a still greater division of labour, and still more concentration of one man to one thing, that can be profitably carried out, and still greater in a

kingdom than in a province, and still greater in the world than in any one nation. The first axiom therefore as to the degree to which division of labour can profitably be carried is: "*The division of labour can be profitably carried out to a degree increasing in a ratio corresponding with the increase of the area.*"

Again, take two countries each containing an area of say 1,000,000 mow. If in one country there are only 1,000 persons, and in the other 10,000 persons, it is plain that in the former there will not be the same advantage in having as great a division of labour as there will be in the latter country, or in other words, "*Division of labour can be profitably carried out to a degree increasing in ratio corresponding with the populousness of the area.*"

Now again, take a great area like Mongolia, where there is not much variety of soil, &c. In such an area it will not be profitable to carry out division of labour to so great a degree as in an area which has a sea border, rich mineral resources, and a varied soil and climate; in other words, "*Division of labour can be profitably carried to a degree increasing in a ratio corresponding with the variety of resources of the area.*"

Now again, take a country which produces machinery. The more complicated a machine is the more it is necessary that some people should devote their attention not merely to that machinery but to special parts of that machinery. In a country which uses many kinds of complicated machinery division of labour will be carried to a greater degree than in a country which uses few kinds of or less complicated machinery. In other words, "*Division of labour can profitably be carried to a degree increasing in ratio with the complexity of civilisation of the area.*"

In a country where the laws are simple, one man can study them all. In a country where laws are complex, one man devotes himself to criminal law, another to civil law, &c. Where civil law becomes complicated there is a further division; one man devotes himself to the laws of the land, another to the laws of shipping, another to the laws of commerce. In a

country where there is not a great knowledge of medicine, one man can study all the healing art of the country. In a country where this knowledge is greater, one man studies surgery and another medicine, and in the study of surgery there is a still further division of labour; one man devotes himself to the study of the foot, another to the study of the eye, another to the study of the bladder, &c. This specialisation of work would be possible in a small community but would not be profitable. In a small community, it is more desirable to have a man who knows the general run of law rather than a specialist who knows only one branch of the law, or who knows the general run of the healing art rather than one who has special skill in one branch of medicine. The degree to which labour can be profitably divided is limited by the sort of labour most required by the community. Among 10,000,000 people there will be a sufficient number of people suffering from diseases of the eye to make it profitable that one or two doctors should entirely devote themselves to curing eye diseases, as in such case their time will be fully occupied. Among 10,000 people there will be only a few suffering from their eyes, and it will be more profitable to have a medical man with less skill in eye curing than the specialist, who will devote his time to curing other diseases also. If there are 1,000 communities, each of 10,000 persons, the most profitable division of labour is for there to be many general practitioners and a few specialists and for the general practitioner when he meets a difficult case to call in the specialist. Or in other words, "*Division of labour should be carried to such a degree that men should attain the highest special skill of which they are capable, consistently with the principle that they should do the greatest amount of work of which they are capable.*"

The maxims
of political
economy act
and react
upon one
another.

Finally, unless there is an *exchange of commodities* there can be little profitable division of labour; unless the needle maker can sell his needles, and in great quantities, it will be impossible to divide the labour of needle making among his employ  s, so that each shall obtain a special skill. It would be no use to

have, as is now done, many different kinds of workmen—making the eye, sharpening the point, packing the needles in paper, &c.

Unless there is machinery, that is, apparatus for *saving labour*, there will be little profit in greatly dividing labour.

Unless there is MONEY, or a medium of exchange, many of the occupations and trades that now exist, that is, many of the divisions of labour, would be non-existent. The minting gold, silver, and copper, assaying the precious metals, banking, &c., would be non-existent.

Unless there is trust between man and man or *credit*, division of labour cannot be profitably carried out to a great degree.

If there were no *borrowing and lending*, there could not be so much profitable division of labour.

Where there is not much *honesty* there cannot be much profitable division of labour, for unless men are honestly paid for the work done, they will not be induced to attain special skill.

As for *co-operation* and *education*, they are the warp and woof of profitable division of labour. Without co-operation there can be little division of labour. One of the objects and results of division of labour is the attainment of special skill. A certain amount of general education increases the power of a man's mind and enables him to become a better specialist. An oculist is a better oculist if the power of his mind has been increased by his learning botany, anatomy, physiology, &c. Besides, if a man only knows one thing he is apt to be stupid. If a large quantity of men only know, for instance, how to make the bowls of pipes and a new fashion of pipes comes in, then a great many men will be thrown out of employ, and the community will have to support them and will lose for a time their wealth-producing work; but if all the bowl makers had been so well educated as to be able to turn their hands to other things, then they would soon be able to get other work, they

would support themselves, and their wealth-producing strength would not be wasted.

Again, division of labour will be more profitable where the law of *demand and supply* is understood. For division of labour is more profitable in the production of articles for which there is a large and constant demand than in the production of articles for which there is a smaller or less constant demand. The producers of the former, from constant occupation, will attain greater skill than the producers of the latter, who will only be temporarily or intermittently occupied in the production.

So, too, with the understanding the principles with regard to *producers and consumers*. Where there is due proportion among the various producers of wealth then there will be a great profitable division of labour. So, too, with regard to the *economy of administration, of taxation*, and with regard to the right *diffusion of wealth*.

This brings us to an axiom with which we will conclude this chapter.

“The right understanding and applying one branch of political economy, enable us rightly to understand and apply other branches, and while increasing wealth within the sphere of that branch, help to increase wealth in the sphere of other branches,” or in other words, “*The wealth-producing power of political economy increases in a geometrical progression pari passu with the arithmetical progression of our knowledge and the application of that knowledge.*”

CHAPTER II.

The Interchange of Commodities.

IF a man has only 50 mow of land he cannot grow on it all he wants: to till it he requires iron tools, and there may be no iron on the ground; he will want cotton to clothe himself with, and the soil may be unsuitable for cotton; he may want indigo to dye his clothes with, and the soil may be unsuitable for indigo. The same principle holds good with regard to 1,000,000 mow. It is true more things can be got out of 1,000,000 mow than out of 50; but still the climate of the 1,000,000 mow will be such as is not suitable for rice, say, the inhabitants of this 1,000,000 mow will grow more than they want of some things and exchange them for rice and other products which their land is unsuited for; one thing is certain, no one will exchange one article for another unless he gains by the transaction. *Every man will buy, if he can, in the cheapest market and sell in the dearest.* The reason of this is obvious; every one desires to be richer than he is. Say there are two men—Chang and Liu. Chang is cleverer in growing rice, and can grow say 40 piculs a year, but could only grow 5 piculs of cotton. To Chang 5 piculs of cotton will be worth 40 piculs of rice, or 1 picul of cotton will be worth 8 piculs of rice. Liu is cleverer at growing cotton, and could grow say $5\frac{1}{2}$ piculs of cotton, but could only grow $38\frac{1}{2}$ piculs of rice. To him $5\frac{1}{2}$ piculs of cotton will be worth $38\frac{1}{2}$ piculs of rice, or 1 picul of cotton will be worth to him 7 piculs of rice. If he changes with Chang 1 picul of cotton for $7\frac{1}{2}$ piculs of rice, each party gains the value of $\frac{1}{2}$ a picul of rice by the exchange.

Benefit of
free exchange
of com-
modity.

Now suppose that besides a difference of skill of Chang and

Liu the field of Chang is more suited for rice and the field of Liu for cotton, so that by using his own field Chang could produce on it 45 piculs of rice and only $4\frac{1}{2}$ piculs of cotton. Then to Chang 1 picul of cotton would be worth 10 piculs of rice. Supposing Liu's field to be better suited for cotton than rice, so that he could only grow 36 piculs of rice in a year on it, while he could grow 6 piculs of cotton; to him a picul of cotton will only be worth 6 piculs of rice. If he changes with Chang 1 picul for 8 of rice, each will gain the value of 2 piculs of rice by the exchange.

If Chang devoted half his field to rice and half to cotton he would produce a year $22\frac{1}{2}$ piculs rice and $2\frac{1}{4}$ piculs cotton.

If Liu devoted half his field to rice and half to cotton he would produce a year 18 piculs rice and 3 piculs cotton.

Both together would produce a year $40\frac{1}{2}$ piculs rice and $5\frac{1}{4}$ piculs cotton.

If Chang devotes all his field to rice and Liu all his to cotton, both together would produce 45 piculs of rice and 6 piculs of cotton, and the two together would be richer by $4\frac{1}{2}$ piculs of rice and 75 catties cotton, than if each grow his own rice and cotton.

The benefit of exchange rests on two bases—the different abilities of Chang and Liu and the different nature of their lands, or, in other words, the diversity of human ability and the diversity of natural resources. One thing is certain: if Chang did not gain by changing with Liu, he would not make the exchange, and if Liu did not gain by changing with Chang, he would not make the exchange.

Take not Chang or Liu alone, but many people: each person will, if there is freedom of exchange, try to produce the thing he has the greatest skill in producing, so as to procure, in exchange for his surplus, the greatest possible quantity of other things he wants, and not only that, he will also be guided by the nature of the soil and climate of his field. If he finds his soil more suitable for growing tea than rice, he will grow tea rather than rice. If he is in the neighbourhood of iron, copper,

coal, &c., he will perhaps devote his skill to producing iron, copper, coal, &c.; more especially if his father had devoted his skill to the same trade and if he has had the advantage of his father's teaching.

In a small area it is impossible to exist without some freedom of exchange, in a medium-sized area there will be greater possibility of existence without freedom of exchange with other areas, but still interference with that freedom of exchange would check the growth of riches of that area.

Benefit of
external
freedom of
exchange
greater to
small than to
large areas.

It is conceivable that the province of Kiangsu could obtain a certain amount of wealth, even if all trade with other provinces ceased. But the province of Kiangsu is richer by trading with other provinces. Thus Kiangsu supplies Szechuan with cotton and receives in exchange gold, white wax, rhubarb and other medicines. Both Kiangsu and Szechuan gain by this exchange exactly in the same way as Chang and Liu; by the exchange Kiangsu and Szechuan will have a greater quantity of produce between them than if they both themselves produced everything they wanted.

The empire of China could obtain some wealth, even if all trade with foreign countries ceased, but her wealth is increased by foreign trade. She exchanges her silk, strawbraid, tea, camphor, rhubarb, &c., for foreign-made articles, such as cotton and woollen textiles, needles, medicines, aniline dyes, clocks, matches, and other articles which China is unable to produce as cheaply as foreign nations can; and foreign nations purchase China's silks, strawbraid, camphor, rhubarb, white wax, &c., because foreign countries cannot produce these articles as cheaply as China. Just as in the case of Chang and Liu the aggregate produce of China and of the foreign countries is greater by the exchange than it could be without the exchange.

In a small area there will be less variety of talent than in a large area, and in a small area there will be less variety of soil, climate, and natural productions than in a large area; a small area is generally therefore more benefited by freedom of exchange than a large area, and more injured by not having

a freedom of exchange than a large area. This is expressed in the following axiom: "*The benefits of free trade are in the inverse ratio to the magnitude of the area.*"

The United States of America and China are both large areas possessing many inhabitants and great natural resources; both check the increase of their wealth by throwing impediments in the way of foreign trade. America's import tariff is far higher than China's, yet the United States is far richer than China. Why is this if foreign trade is a benefit? The answer is easy: it is because in the United States no impediment is put in the way of internal trade; small, medium, and large areas in the United States have freedom of exchange among each other throughout the vast territories of the confederation. There is in the United States no likin, no stoppage of goods in transitu; there are there good railways to carry the goods inland; there is no import or export tax for goods going from one port in the United States to another, and no export tax for American goods going from the United States to foreign countries. In China, on the other hand, there are no good railways; the canal and river communication, though excellent in some places, are filled with tax stations, so that goods going from one district to another by land pay heavy freight and likin, by water heavy likin, and are detained long times for inspection. This impedes the freedom of exchange of small areas with each other and keeps the Chinese poorer than the Americans, though China allows foreign goods to be imported to her coast ports on a lighter tariff than America does. America owes her comparative wealth not to the exclusion of foreign products, but to the free trade and good communications that exist throughout the United States. The United States loses by excluding foreign products, but being a vast country, rich in natural resources and in variety of soil and climate and in the ability of her citizens and commorant foreigners, the loss she sustains in not admitting foreign products is not much felt, because she is rich. A rich nation, like a rich individual, can afford a loss which would ruin a poor one; but the rich nation and the

rich individual would both be richer if they incurred no losses.

In the same way, China does not owe her comparative poverty to admitting foreign goods at low import duties—she gains by this—but to the badness of her roads, the absence of railroads, and the checks she imposes on the freedom of trade, with each other, of the small areas within her borders. In countries like China and the United States freedom of foreign trade is important it is true, but freedom of internal trade is more important. For *the benefits of free trade are in the inverse ratio of the magnitude of the area.*

In last chapter we considered division of labour as profitable by allowing each individual to work at what he has the greatest capacity for; in this chapter we have shown that freedom of exchange is also profitable in that respect, and in addition to that we have shown it is profitable in causing goods to be produced in the places WHERE they can be produced best and easiest. There is a difference between division of labour and freedom of exchange, namely, that *while the profitableness of division of labour increases in the ratio of the magnitude of the area, the profitableness of freedom of trade increases in the inverse ratio, that is, decreases in the ratio of the magnitude of the area.* This difference has a practicable bearing in the imposition of taxation.

I have heard Chinese, and foreigners too, say that it is better for a country not to buy foreign things, as it takes money out of the country. Now this is not true. We have shown in the previous chapter with regard to foreign labour, that though the labourer takes money out of the country, he leaves in the country more value than he takes out; so in regard to foreign commodities, if they are not worth the money that is given for them, they would not be bought. If I have 10,000 Taels and no clothes, no food, no house, I am no poorer, because I spend some of my money on clothes, food, and house. It is true I have no longer 10,000 Taels, but I have clothes, food, and a house for the money I spent, and if I spend my money wisely

Judicious
buying
beneficial as
well as
judicious
selling.

I am no poorer and may be richer. Thus, if with 10,000 Taels I spend Taels 1,000 on a house worth 1,200 Taels, Taels 1,000 on clothes worth 1,200, &c., it is plain that instead of my Taels 10,000 I shall have articles worth Taels 12,000, and though I have no silver I shall be a richer man than if I had not spent the money; as a general rule foreign commodities are bought because, to the purchasers, they are worth more than the money paid for them. Say 1,000,000 foreign needles are bought for 100 Taels. People give 100 Taels for them because they are worth in China more than 100 Taels. If the 100 Taels are sent to the foreign country that made the needles, China will have, it is true, 100 Taels less, but she will have 1,000,000 needles more than she would have had if the purchase had not been made. As a matter of fact, the 100 Taels do not leave China. The foreigner finds he can get for the 100 Taels a quantity of silk, strawbraid, or tea made in China, worth to him more than 100 Taels, and so he spends the 100 Taels in silk, strawbraid, or tea. China still has the same silver in the country as before. What she has really done is, she has exchanged so much silk, strawbraid, tea, as the case may be, for needles, and the exchange has been made precisely for the same reason as Chang and Liu make the exchange of rice and cotton, because by making the exchange both China and the foreign country get more of what they each want than they could have by each producing both commodities. China and the foreign country both gain and are richer by the exchange.

Deleterious
commodities.

It may be objected, What has been said above may be true about useful things like needles, but how about opium and spirits? I will at once admit that, if an individual or a nation is so self-indulgent as to expend too much on opium or drink, such will impoverish the individual or nation. I will go further and say, if a Government of a country sees its people inclined to spend too much money on opium or drink, it is quite right to check the import from abroad of opium and drink; but in doing this it must exercise wisdom. A total prohibition of the import of opium and drink, or a too high levy of duty, may

entail upon the Government a greater expense in enforcing the law than it can afford. The gain, too, by breaking the law may be so great that large numbers may become contraband traders and smugglers, and, being lawless in one thing, may be lawless in all, and more harm may ensue from the prohibition than good be done by it. As in the case of refusing to allow criminal and pauper aliens to come to a country, a nation is quite justified in refusing to allow a mischievous commodity to be imported. Each nation knows its own condition; every State prohibits the free importation of dynamite; most nations prohibit the free importation of arms and ammunition. The conditions of each nation differ, and the means by which to check the importation from abroad of deleterious commodities must differ according to the different conditions of various nations. One thing is certain, the greater the freedom of exchange allowed, the wiser the means adopted to check the import of deleterious commodities, the greater will be the wealth of the nation.

Suppose another case. Suppose Chang, who grows rice, lends Liu, who grows cotton, money; it is evident Liu will have to pay Chang interest. And suppose he pays the interest in cotton, and Chang owes no one anything; it is evident Chang will have all the rice he (Chang) grows, and some of the cotton Liu grows. But though Liu has to give some of his cotton to Chang, it does not follow that Chang is the richer man. For instance, if Chang and Liu, before the money was borrowed, each had 50 mow, and Liu uses the money to buy 10 more mow of land, which produces 60 catties of cotton a year, and he only pays 20 catties a year interest, he may be a richer man than Chang by 40 catties a year, less the cost of cultivation.

Imports in
payment of
debt.

Now suppose that Chang not only lends to Liu, but lends also to Li, who smelts iron; to Chên, who rears silkworms; to Hsu, who makes pipes. He will receive from Liu cotton, from Li iron, from Chên silk, from Hsu pipes—not necessarily in kind, but the worth of a certain amount of cotton, iron, silk,

and pipes—and that irrespective of whether Liu, Li, Chên, and Hsu are poorer or richer than he is. If Chang has both borrowed and lent money, and still has his own field, what will be the result? If he has lent more than he has borrowed, he will receive more than he gives out: if he has borrowed more than he has lent, he will receive less than he has to give out of his field.

The same thing happens with village communities, districts, provinces, and nations. If a nation has lent more than it borrows, its imports will be greater than its exports. If it has borrowed more than it has lent, its exports will be greater than its imports. As a matter of fact, every nation is both a borrower and a lender. When people living in England invest money in a foreign country, whether the investment is in the form of a loan to the foreign Government or shares in a foreign country's companies, &c., England is lending that country money, and the interest will be paid, generally, not in money, but in produce. England has lent Russia more money than Russia has lent England, consequently imports more goods from Russia than she exports to Russia. England has lent most countries of the world more than she has borrowed from them, consequently her total imports are greater than her total exports.

Someone may ask, How is it that the imports into Amoy are greater than the exports? Amoy has not lent foreign countries money. That is true; but Amoy has lent labourers, whose work is worth money. Men go from Amoy to Manila, Burmah, Singapore, Tonquin, Java, &c., earn money there, and come home to spend it; some of them, before coming home, have invested money in these foreign countries, and the interest of the savings, whether of wages or investments, comes to Amoy in the shape of imports.

Someone may ask, Supposing England has lent Russia 100,000,000 Taels more than Russia has lent England, will the excess of England's imports from Russia over her exports to Russia exactly represent the interest on 100,000,000 Taels? Or, in other words, will the excess of imports over exports be

exactly and invariably the indication of the value of the interest of the indebtedness? The answer to this question is, No.

We have supposed the case of Chang having lent Liu money, the interest of which is 20 catties of cotton a year. Now, supposing Chang is willing to accept as interest 15 catties of cotton and a picul of iron, and suppose Liu can buy a picul of iron for four catties of cotton, Liu will pay Chang 15 catties of cotton and one picul of iron, as he will thus save a catty of cotton. This is precisely what happens among nations. France, England, and Germany have each lent Russia more money than she has lent each of them, and Russia pays them interest; it may be partly in her own produce, and partly in the produce of other countries which she purchases in those other countries. Thus Russia pays England the interest of her indebtedness; it may be wholly in her own produce, such as wheat and tallow, or partly in her own produce and partly in produce Russia purchases, such as, may be, tea and silk purchased in China with the kerosene oil Russia sends to China; partly, may be, in French or Italian wines, &c. So we see that the excess of imports over exports, when two countries alone are taken into account, will not give an accurate indication of the amount of their relative indebtedness.

On the other hand, if we take the total imports of a country from all countries of the world, and her total exports to all countries of the world, the difference in value will approximately represent her indebtedness or otherwise as regards the whole world. If a nation imports more than she exports, it will be a sign that she has lent more than she has borrowed, and *vice versa*. One can only make an approximate estimate of a nation's indebtedness or otherwise from these data, for two reasons. First, because it is very difficult to have accurate information of what a nation imports and exports, so much comes and goes, for instance, in the personal baggage and letters. Even if we had accurate statistics, the transactions of one year might be very misleading. A nation, like an

individual, will sometimes spend more than its income in one year ; unlike an individual, it will rarely or never spend more than its income for a succession of years. Nations, like individuals, will differ as to the amount they save a year. If we take a long series of years, and add up the differences between the value of exports and imports of a nation with all the world, and divide the sum by the number of the years of the series, we shall have an accurate estimate of the average indebtedness or otherwise of that nation with regard to the rest of the world for that period. But we shall not, after we have done this for every nation in the world, be able to form any estimate at all as to their comparative wealth. To do this we shall have to take other series of facts into consideration.

Suppose Chang has 50 mow of land, worth 30 Taels a mow ; he has also Taels 1,500, of which he keeps 500 in his house, and lends 600 to Liu and 400 to Chên. Chang's total wealth is Taels 3,000.

Comparative
wealth of
nations.

Suppose Liu has also 50 mow of land, worth 30 Taels a mow, and has no money *in* his house, but has lent Taels 3,000 to Chên. Liu's wealth will be Taels 3,900.

Suppose Chên to have only 10 mow of land, but that, being in a town, it is worth 1,000 Taels a mow ; suppose him to have no money or other property ; his wealth will be 10,000 Taels less his debts of Taels 3,400, or Taels 6,600.

In other words, Chên, who owes most, may be the richest of the three, and Liu, who owes something, may be richer than Chang who owes, nothing.

So it is with nations ; the comparative wealth of nations does not depend only on the amount of their indebtedness or otherwise, nor on the extent of their territories alone, nor even on the natural resources of the country alone, but also on the uses made of these resources. If Chên, who has only 10 mow of land, tilled it instead of building houses on it, his land would only have been worth in all say Taels 300, and instead of having wealth to the amount of Taels 6,600 he would be bankrupt to the extent of Taels 3,100.

Chang and Liu will be guided, as before stated, in exchanging their products by the gain each party makes on the exchange. If they live far apart and the cost of carriage of Chang's rice to Liu's house, and of Liu's cotton to Chang's house, is very great, there will be no exchange. The less the cost of carriage is the more profitable will be the exchange to them both and the more wealthy will they become; and, again, if Chang and Liu each time they make an exchange have to pay a heavy squeeze to the mandarins, they will either not exchange at all, or the exchange will not be so profitable. The less squeeze they have to pay the more profitable the exchange will be, or, in other words, the less squeeze they have to pay the wealthier will they grow, and this irrespective of whether the squeeze is levied only on the cotton going to Chang's house, or only on the rice going to Liu's house, or on both. It is the same with nations; the less the cost of freight on commodities, and the less the import and export duties, the more profitable will foreign trade be and the richer nations will become.

Hindrances to freedom of exchange of commodities.

Some people say, if we want to grow rich let us sell as much as we can and buy as little as we can. This is foolish. If a person decides not to buy anything he must produce all he wants himself, and that we have shown to be unwise. He will grow richer if he devotes his attention to producing what he can produce best, and buying the things he can get at a less cost than he could himself produce them for. If Chang can get a picul of cotton for 10 piculs of rice, and it would take him the same work to produce a picul of cotton as it would to produce 11 piculs of rice, he is wise to give 10 piculs of rice for one of cotton. It is the same with nations. Suppose every time Chang exchanged 10 piculs of rice for one of cotton he had to pay a picul of rice to the mandarins, evidently he would not take the trouble to make the exchange. But then Liu would not have made the exchange unless he could produce one picul of cotton with greater ease than he could produce 10 piculs of rice. Say he could produce

Fallacy of the "mercantile" theory.

one picul of cotton as easily as he could nine of rice. He would then perhaps offer a picul of cotton for nine and a half piculs of rice, and the exchange will still take place, but each of the exchangers will not gain so much. If the squeeze gets big enough to eat up the gains of the exchange, exchanging will cease.

Consumer
pays the
taxes on
commodities.

Chang not only exchanges his rice for Liu's cotton, he exchanges his rice for Chên's iron, and perhaps his profit on the last exchange is not so great as on the exchange of rice for cotton, in this case a smaller squeeze will kill the exchange between Chang and Chên than would kill the exchange between Chang and Liu, or, in other words, *there must be a margin of profit*. Trade will be limited by the expenses of the exchanges, whether such expenses be in transit, taxes, or other costs. Each nation has in it many Changs, Lius, Chêns, &c., each desirous of exchanging their rice, iron, and cotton for as much as they can get for it; each Chang will deal with the Liu who gives him the best bargain; in other words, *everyone desires to buy in the cheapest market and to sell in the dearest*. The cheaper the market the more goods will be sold in that market. The dearer the market the more goods will be sent to that market for sale. It is the person who consumes the goods who pays all the taxes and expenses of these goods, as, if he did not gain by buying the goods at the selling price, which must include freight, taxes, &c., he would not buy. The person who sells the goods does not pay the taxes and expenses; he is injured by taxes and expenses in another way; they reduce the volume of his trade, and he of course will not gain by producing unless he can find purchasers to buy his goods at a price which will leave him a margin of profit, after all expenses are paid. High taxes deprive the seller of his occupation.

Benefit of
free exports.

By allowing free export of goods a nation increases the volume of trade in her products and benefits the manufacturers of such products in the way of giving them occupation. By

Free imports.

allowing free imports she cheapens the price of products to the consumers, so that they can have more things for their

money. Both free exports and free imports add to the wealth of the country. By allowing free imports a nation cheapens the cost of living ; by cheapening the cost of living it cheapens the cost of labour ; by cheapening the cost of labour it cheapens the cost of manufactures.

The United States allows her produce to be exported free of duty ; she also allows raw materials to be imported free of duty, but she taxes very heavily all manufactured goods coming from foreign countries. The consequence of this is that most manufactured articles are dearer in America than in England. The cost of living in America is much greater than in England. A man with \$5,000 a year is much richer in England than he would be in America, as he can get his house, his servants, his clothes, his labourers for much less money than he can in America. The consequence is it costs less to produce things in England than it costs to produce them in America. This is especially observable as regards ships. England has consequently many more merchant ships than America, for, of course, the less good ships can be built for, the greater will be the profit of the shipping companies and the more ships will there be ; and of the American ships some are built in England. In other words, by free imports Englishmen increase the occupation of shipowners and shipbuilders. By taxing imports Americans decrease the occupation of shipowners and shipbuilders ; allowing free imports, and so lessening the cost of production, is one of the means of fostering export trade, as if things are produced cheap they can, unless overtaxed by the purchasing country, be sold cheap to the consumer, and everyone likes to buy things cheap.

To sum up. The greater the division of labour and the greater the freedom of industry the greater will be the benefit of freedom of exchange.

The more skilfully labour is saved, or, in other words, the more there is *saving of labour* in carrying goods and in making them, the greater will be the benefit of freedom of exchange.

The better the MONEY system is, that is, the easier the

medium of exchange does its work of helping exchanges, the more will be the benefit of freedom of exchange.

Credit facilitates exchange, as do loans, *borrowing and lending, honesty, education, co-operation*, the right understanding the laws of *demand and supply*. . Taxation interferes with the freedom of exchange, and it is desirable that taxation should be light on imports as well as exports. There is only one exception as to the desirability of freedom of exchange as a means of enriching a nation, and that is with regard to commodities either noxious of themselves, or noxious in particular nations, owing to the particular circumstances of these nations. The greater wisdom of a country in regulating freedom of exchange, the more the people of a nation by education have learnt the right thing to do, and the more honestly they strive to do it, the richer will that nation become. Riches, as well as honour, are the gifts of wisdom, and nations are made wealthy, as well as founded and established, by righteousness and equity.

CHAPTER III.

Saving of Labour.

EVERY man wants more than he has got, and while his desires are unlimited his powers of obtaining what he wants are limited by three things ; first by time. The day only contain 24 hours ; man only lives a certain number of years, in the first of which he is too young to work, in the last of which he is too old to work. Secondly, by his physical weakness the strongest man can only work a certain number of hours a day, and he can only lift a certain weight. And thirdly, by his stupidity the most learned man can only know a very small fraction of knowledge, the cleverest man can only do a few things. So when we speak of saving of labour we mean three things—doing things quicker, doing things with less exertion, and doing things better. Saving labour enriches an individual in several ways. It enables him to do more work in a given time. Say it is necessary for him to dig up land, and that using a stick he can dig up a fang of land an hour, and by using a spade a fang of land in half an hour. Supposing he can work 10 hours a day, evidently he will gain by using a spade instead of a stick, as by doing so he can either dig up 20 fang in the day instead of only 10 fang ; or, if he only wants to dig up 10 fang in a day, he need only work for five instead of 10 hours a day to do it ; and in the other five hours he can do other work, or study, or go and see a neighbour, and perhaps learn from him ways of improving his crop. If he finds that getting a buffalo to pull a plough to plough the land is easier than digging the ground up with a spade, he will get a buffalo to plough the land and will grow richer by the amount of labour he saves. In the West it is found, in some cases, labour is saved by using a steam plough

Benefits of
saving labour.

Machinery.

instead of a plough drawn by an animal. This is the case where the field is very large; but a steam plough costs a great deal of money; and so the farmers instead of buying it hire it by the day.

Again, say a man has a field on a hill, and that above his field is a stream, he will either dig ditches to bring down the water to his field, or bring it down in bamboo pipes, and thus save the labour of carrying the water he wants. He will devote the time he thus saves either to leisure, other work, study, or visiting. Suppose a great quantity of water is required, labour will be saved perhaps by putting iron or crockery pipes instead of bamboo pipes, or if the stream sometimes runs dry labour will be saved by digging dams to prevent the water being wasted. In the West there are gigantic aqueducts carrying water many hundreds of *li*, and gigantic reservoirs much bigger than the reservoir at Hongkong, from which water is carried to towns many miles off. And these reservoirs and aqueducts increase the wealth of the places supplied by them, because they save labour.

Suppose a man has a series of rice fields on a hill. The rice has to be grown on a flat ground, so he makes the hill into terraces; supposing the water is below these terraces he has to raise it to the level of the highest field. This he does by means of chain buckets worked by treadles, trod by men; if much water is wanted, instead of a treadle, a wheel with cogs, worked by a buffalo, is used to raise the water; each process is useful, as it saves labour, and the saving of labour means the owner of the hill land can either in the same time irrigate a greater quantity of land, or he can have more leisure to do other work, or to study, or to visit friends. In Western countries it has been found to save labour to use steam machinery to raise the water in chain buckets.

In ancient days people used to cut wood with flint knives; afterwards, when iron was discovered, axes were made, and the wood was cut with axes; then it was found out that planks could be cut quicker and with less waste by using a saw

than by using an axe, and then that two men working the saw together, one at each end, could do the work quicker than they could working separately. Each improvement of the implements and methods saved time, and enabled men either to produce more planks, or to have more time for other work, study, or leisure. In Western countries it has been found that it saves labour to use steam machinery for cutting planks, and therefore Western nations use steam machinery for the purpose, and grow richer to the degree that the machinery they use saves labour; those who use the best machines grow richer than those who use machines not so good, and those who use the not so good machines grow richer than those who do not use machines at all.

In ancient times people wore the skins of beasts as clothes, but gradually they found that clothes could be better made by making the wool of animals, such as sheep and camels, into clothes, as then they still had the sheep and camels, or out of plants, such as cotton and hemp, or out of cocoons, such as silk. Now it was soon found that with regard to all clothes so made machines saved labour—machines for taking the seeds out of the cotton, for cleaning, carding, and combing the cotton, spindles for spinning it into yarn, looms for weaving it into cloth. The same took place in making wool into textiles and in weaving the threads of the cocoons into silk, and also in decorticating hemp and weaving the fibre into grass cloth or linen. Each saving of labour not only caused greater quantities to be produced, but also better qualities. Each saving of labour increased wealth and gave more time for other work, study, and leisure. In Western countries the machinery of all these processes has been improved by the introduction of steam, so that Western countries, like England, which do not grow cotton, are able to make fabrics cheaper than the countries where the cotton grows.

Saving labour
in produc-
tion.

In the day there are on the average 12 hours of light and 12 of dark. In the extreme north and in the extreme south of the world in winter there are not so many hours of light,

and in summer there are more. It was found desirable, in order to have more time to see to work in *in* winter, to have artificial light. At first animal tallow was used, but it was soon found better to use vegetable oil also and to coat the candles with wax, either made by the bees, or what is called white wax, that is, wax made by a sort of firefly; this white wax is much made in Szechuan. Afterwards mineral oil was discovered to be cheaper and to give a stronger light than either tallow or vegetable oil; then light was obtained by gas, and then it was discovered that a most powerful light could be produced by electricity. Each improvement enriched nations by saving labour, that is, by economising time, economising exertion, and by doing things better than before.

Saving labour
in distribu-
tion.

We have glanced at the saving of labour in production; it is also desirable to save labour in exchanging commodities and reducing the cost of carriage, &c.

Goods are either carried by land or water. Some of the machines for land carriage are very simple, such is the carrying pole, yet even the carrying pole was used, because by using it labour was saved, that is, things were easier carried than by carrying them in the hands. Where roads admit wheeled conveyances are used, which make the work of carrying still easier. In some nations good roads have been made and bridges built across rivers. These roads and bridges not only save labour, but they are themselves a considerable part of the wealth of the country; then carts were drawn by cattle, then by steam machinery, and now by electricity. Railways were built, which saved labour and bring places near to each other. Before the railway was built it took many months to go from the east to the west coast of America; the journey can now be performed in five days. It takes now two days to go from Tientsin to Peking; when the railway is completed it will be possible to perform the journey in two hours.

So too with regard to carriage by water. Wood wanted down stream was thrown into the water and floated down stream, because it was less work carrying the wood that way than on

the shoulders. Then rafts were made, then boats propelled by oars or yulos, then boats with sails, then boats with sails were improved, so as to be able to trust themselves to cross the open ocean, and not merely ply in rivers and hug the coast on the sea border. Then it was discovered that vessels propelled by steam could go quicker than vessels propelled by sails, and could also go against wind and tide, and time, which is labour, was saved in using them. At first paddle steamers were used, then it was found that screw propellers were better than paddle wheels, and so on with many subsequent improvements; they all have for their object the saving of time and labour. Thirty years ago it took over two months for tea sent to London or Russia from Hankow to reach its destination; the freight was £12 a ton. Now it only takes one month, so that a month's interest is saved on the value of the tea annually sent to England and Russia, and as the value of this is many millions of Taels, the interest saved is considerable. Again, owing to the steamers saving labour they can be run cheaper, so that freight from Hankow to London is only now about £2 a ton, so that people in Russia and England get their tea cheaper by one month's interest and by £10 a ton. They can either afford to buy more tea than they could 30 years ago, or they can save more money; in other words, they are richer by the saving of labour in steamer machinery. It is the same with the Chinese: Russian cloth and English textiles are made cheaper than they were 30 years ago by the better steamer machinery; the Chinese can therefore either buy more Russian cloth and English textiles than they could 30 years ago (supposing they have the same wealth as they had 30 years ago), or can save more money. In other words, China is richer than she would have been had there not been the labour-saving improvements in steamer machinery.

Besides actual carriage of goods, there must be, in order to effect an exchange, communications between the parties effecting the exchange. The quicker and easier the communications, the less labour will it take to effect the exchanges. Railways and

In trans-
mitting
messages.

steamers have made oral communications much easier than they used to be; but in many cases it is not convenient for a trader to go and see another trader, nor to send him a verbal message; verbal transactions are not so good as written, because there may be misunderstandings or forgetfulness. "*Words,*" says the Chinese proverb, "*are like wind; what is written is certain.*" In one sense, writing itself is a saving of labour. It was found out that it further saved labour if, instead of each man sending his letter by a special messenger, a great many people entrusted their letters to one man to carry, and so post offices were established, and as they were able to save labour, diminish cost of postage, and save time in delivery of letters, they increased wealth by increasing facilities of exchange. A good postal system is a great source of wealth to a nation. China has not yet got a good postal system. The charge for delivering letters is much higher than in Western lands, and the delivery is far more dilatory. Afterwards the telegraph system was invented, quickening the delivery of messages, and the telephone, by which men many miles apart can speak to each other. Good postal systems, telegraphs, and telephones enrich nations, because they save time and labour.

By use of
money and
credit.

To facilitate exchange there must be a medium of exchange—that is, money. The use of money enriches nations, because it saves labour. If England wants to buy 1,000,000 Taels' worth of silk from China, and China wants to buy 1,000,000 Taels' worth of shirtings from England, it saves the labour of sending the silver from England to China and back if banks in England and China merely in the first case credit China and debit England, and in the second case debit China and credit England—that is, if the business is done by cheques and bills of exchange instead of by specie. In other words, the credit system enriches a nation, because it saves labour.

It may not seem much labour writing a cheque or drawing a bill, but it has been found in practice that the economising labour in writing cheques and bills has had most important results. In Western lands there are what are called life

insurance offices. A man, by paying so much a year to one of these offices during his lifetime, is guaranteed that a lump sum shall be paid to his family on his death. In England alone hundreds of millions of Taels are paid to these insurance offices. It is manifest that if people who insure their lives are dilatory in paying the premia, the insurance offices will not be able to pay the policies when due. The insurance offices, therefore, generally made it a rule that if anyone was a month behind paying, in paying his premium, he should forfeit his policy. There having arisen hard cases from people having forgotten to pay, the Government made a law that insurance offices must always remind policy-holders of the dates when their premia were due; this entailed on the insurance offices the work of writing many hundreds of thousands of letters a year and paying postage on them; besides, hundreds of thousands of people sending cheques to the insurance companies, entailed on them the trouble of entering them, cashing them, &c. So now an agreement has been made between insurance offices and banks that, if the banks would guarantee the policy-holders paying the premia regularly, the offices would not ask the insurers for cheques. The insurers found this very convenient, as it saved them the labour of thinking when the premia were due, of writing cheques, and sending them to the insurance companies. The insurance offices are saved the labour of writing the notices and sending them off. The following is now what is generally done:—On the day the premium is due the bank debits the policy-holder; 15 days later it credits the insurance office, and the insurance office debits the bank; the insurance office is thus credited 15 days after the premium is due, but 15 days before it must be paid. The bank gets 15 days' interest on the premium, besides saving itself labour. The saving of labour to the insurance offices thus effected has enabled them to reduce their working expenses to such an extent as to be able to reduce the premia of insurance. The premia of insurance having been reduced, the insurer has been able to insure for a larger sum, or to save the

money between the old and present premia, and the insurance offices have gained by reducing the premia, because more people insure and they do a bigger business.

In calculations.

In making exchanges people have to make calculations, and labour will be saved in making these calculations if they have studied a good system of arithmetic. English can calculate quicker in multiplication and division than Chinese, because they have studied a better system of arithmetic than the Chinese have. On the other hand, Chinese can add and subtract as quickly as Englishmen, for two reasons: first, because Chinese money and most of their weights and measures are on the decimal system; and, secondly, because they make use of a machine called the "abacus," which Englishmen do not use. The decimal system of weights, measures, and money is a good system, because it saves labour in reckoning, and the abacus is a good thing, because it saves labour to reckon with it. The French reckon both weights and measures by the decimal system, a metre being the 100,000th part of a degree of latitude at the equator, or the 1,000th part of a mile or minute of latitude; the metre they divide into tenths, hundredths, and so on. In the same way the French weights are on the decimal system. The saving of labour effected by adopting the decimal system in France has been so great that many other nations, such as Germany, Russia, Greece, Austria, &c., have adopted the French system of weights and measures, and the English Government is about to introduce a law to adopt it in England. In the United States of America some learned statesmen are advocating its adoption in America.

The adoption of a uniform kind of money, and a uniform standard of weights and measures on the decimal system, saves labour in effecting exchanges in the domestic trade of a nation and in the foreign trade. Labour would be still further saved in foreign trade if all the nations of the world would adopt the same decimal system and the same units of value, measure, and weight. With regard to weights and measures, this will probably be done before many years are over among Western nations;

but with regard to money, there are at present no hopes of this being done for a long time. A uniformity of money throughout the world, or throughout all Western nations, would undoubtedly, by saving labour, increase the wealth of nations; but at present this is one of those principles which, though theoretically desirable, cannot in the present condition of the world be put in force. The nearest approach to it is what is called the "Latin Union." France, Italy, Greece, Servia, Bulgaria, Switzerland, &c., have entered into a compact to have the same weight and purity for their several coins; this compact certainly facilitates exchanges among the nations belonging to the Union, and has, by saving labour, increased their wealth.

The Latin
Union.

In making out accounts, it saves labour to write, say, Tls. 1,072.6.5.4 instead of one thousand and seventy-two Taels, six mace, five candareens, four cash. And so, too, in Chinese, labour is saved by writing the arithmetical characters rather than the words. We call the arithmetical characters "Arabic figures"; the Chinese call them "matze." Both Europe and China borrowed the Arabic figures and the "matze" from the Arabs. The Chinese learnt the matze from the Arabs in the Tang dynasty. In Europe the Arabic figures were probably learnt somewhat later. This is only one of the many instances in which useful labour-saving knowledge has been learnt from foreigners.

Having glanced at the reason *labour-saving* enriches nations, let us look at the proportion in which it enriches them. We will begin with examples as simple as 2 and 2 make 4, and proceed from them to more complicated examples. Suppose Chang produces rice and Liu produces cotton, and suppose Chang finds out some labour-saving machinery, by using which he is able to produce not merely 45 piculs of rice a year out of his field as formerly, but 60 piculs a year, but that Liu is no cleverer than before and can only produce as before 6 piculs of cotton. If we consider Liu's work worth Chang's work, or in other words, if we take *labour as the standard of value*, while before a picul of cotton was worth $7\frac{1}{2}$ piculs of rice, it will now

Examples.

be worth 10 piculs of rice, or in other words, the price of cotton will remain stationary, but rice will have depreciated. By the depreciation neither will be poorer, and both together will be richer by 15 piculs rice a year.

Suppose there are many Changs growing rice and many Lius growing cotton, and only one Chang has discovered the labour-saving machinery, what will be the consequence? The Chang who uses the labour-saving method will be richer by 15 piculs of rice a year; everyone else will be neither richer nor poorer; the relative price of rice and cotton will continue as before, the aggregate of Changs and Lius will be richer by 15 piculs of rice a year.

Now suppose there are 20 Changs, 10 of whom use the improved machinery and 10 do not, and the Lius do not improve, what will happen? 1st. The whole community will be richer in the aggregate by 150 piculs of rice a year. 2nd. The 10 clever Changs will compete for the purchase of cotton. Rice will depreciate and cotton will appreciate. The Lius will be richer, as they will get more rice for their cotton. 3rd. The stupid Changs who do not use the improved machinery will be poorer, as they will not get so much cotton for their rice.

I think the stupid Changs would most probably attribute their growing poorer not to their own stupidity, but to the improved machinery, and would very likely try to prevent the clever Changs using it. But in the interest of every one it would be best, instead of allowing them to do this, to teach them also to be clever, or, if they could not learn, to give them other work to do.

Now, suppose in addition to the 10 clever Changs there were 10 clever Lius who, by using labour-saving machinery, could each produce 7 piculs of cotton instead of 6. The aggregate community would now be richer by 150 piculs of rice and 10 piculs of cotton; both rice and cotton would depreciate. The clever Changs and clever Lius would still be richer, as they would be able to get the same amount of other commodities and retain more of their own rice and cotton. The stupid

Changs and stupid Lius would be not only comparatively poorer, they would be actually poorer; for though they would still have as much rice and cotton as they had before, they would not be able to exchange their surplus for so much other things. The right remedy is not to prevent the clever Changs and clever Lius from using the labour-saving machinery, but to educate the stupid Changs and Lius to do the same, or to set them to other work for which they have more capacity.

The same rule holds good if we take 1,000,000 commodities and use nations instead of individuals as our examples; labour-saving will not at the same time be discovered by all nations, nor in all commodities, nor to an equal extent, and this is one of the causes of fluctuations in value. Labour-saving in the production of any one commodity enriches the world, though it may impoverish one particular nation; the remedy for that nation is not the prohibiting of labour-saving machinery, but educating its people to use the same, or better, labour-saving machinery in its products. Labour-saving in the production of what is bought enriches the buyer by enabling to get a greater quantity for the same value. Labour production in what is sold enriches the seller by enabling him to sell a greater quantity of what he produces, after retaining the quantity he requires for his own consumption.

In all countries of the world there has always been opposition to the introduction of labour-saving machinery; the reason of this opposition is that its introduction does sometimes impoverish individuals for a time, though in the end it enriches the community; what is wanted is to get all the benefit we can out of the introduction of labour-saving machinery and to minimise the detriment. To do this we should study the objections that have been raised against the employment of machinery, see how far they are founded in mistakes and correct those mistakes, how far founded in real facts and meet those real facts.

The first objection made to labour-saving machinery is that it throws people out of employ. One argument used by

Opposition to
introduction
of machinery.

Fallacy of
objections.

working men was this: if by machinery 800 men do the work that 1,000 men did before, 200 men will be thrown out of employ. Now this argument seems good until we think a little deeper. Everybody wants more than he has got, and if he can get that something more without extra exertion he will do so. If the things become cheaper he can get more of them without extra exertion. Say he earns 100 cash a day, and that the price of shirtings was 20 cash a foot, and that he bought 1 foot a day. If the price of shirtings falls to 10 cash a foot he will be able to buy 2 feet of shirtings a day with 20 cash. Again, say the price of wooden planks is 4,000 cash a fang, and afterwards, on account of labour-saving machinery, falls to 2,000 cash a fang, what will be the result? People who formerly floored all their rooms will build bigger rooms and buy more planks, people who only floored some of their rooms will floor all their rooms and will buy more planks, and people who before could not afford to floor any of their rooms will now floor some of them; the demand for planks will so much increase that more, not fewer, people will be employed in sawing planks.

When steam machinery for spinning cotton was first introduced into England the spinners at the old looms thought they would be thrown out of employ by the labour-saving machinery. As a matter of fact the labour-saving effected by the machinery has so increased the sale of cotton cloth that there are 10 times as many persons employed now in making cotton cloth than there were before the introduction of machinery.

When railways were first introduced into England the owners of carts and horses objected, because they thought that their horses and carts would have no work to do. As a matter of fact the railways so much increased traffic that more horses, carts, and carmen have been wanted since the introduction of railways than were wanted before.

When steamers were introduced into China the junk people objected, because they thought the introduction of steamers would take the bread out of their mouths. What has really happened is that the introduction of steamers has caused many

more people to travel. Thousands go a day from Canton to Hongkong, when there only used to be tens. Myriads go a month from Swatow and Amoy to Singapore, when there only used to be hundreds. Myriads go a month from Hankow to Shanghai, when there used to be only tens. There is now more employment for Chinese sailors than there was before, and more employment for Chinese small boats; a few junk owners have lost, but millions of Chinese who go to Hongkong, Singapore, Java, Manila, &c., have gained.

Another objection to the introduction of labour-saving machinery was that it would lessen the earning of unskilled labourers, and that the majority of labourers being unskilled the majority would be made poorer to enrich a few. What has really happened is that skilled labourers have enormously increased in numbers and the unskilled labourers have decreased in numbers. In England the wages of skilled labour have increased four-fold and the wages of unskilled labour have increased more than double. The reason for the increase in the number of skilled labourers and decrease in the number of unskilled labourers is evident. Machinery requires skilled labourers, and it was worth the while of employers to pay highly for skilled labourers, so unskilled labourers had a greater inducement to become skilled labourers, or to have their children taught to be skilled labourers. It is not so evident why the wages of unskilled labourers should have been increased by the introduction of machinery. One of the reasons is, because with the increase of wealth the *standard of living* is raised, and people require more comforts than they formerly did, and are shocked at the poor living in the discomfort they formerly did. Before the introduction of machinery into England the wages of a strong unskilled labourer was about seven shillings a week; it is now 15 shillings, and a shilling can now buy nearly twice as much bread, more than twice as much tea, as one shilling could before. That is, in England, while the workman has been getting more wages, everything in England has gone down in price, except house rent; and

Standard of living.

not only so, but the taxes that labouring men have paid have been lessened. Again, another fact to be observed is that the more a nation uses machinery the higher will be the wages of the unskilled labourer, and the higher the wages the more inducement there will be to save labour. In America, where most machinery is used, the wages are highest. In England, where more machinery is used than in France, wages are higher than in France. In France, where more machinery is used than in Italy, wages are higher than in Italy. In Italy and Japan, where more machinery is used than in China, wages are higher than in China. For a long time wages were stationary in both Japan and China. Japan has lately imported much machinery, China but little. Wages have gone up in Japan, but have not gone up in China, except in a few places like Shanghai, where machinery has been imported.

Dislocation of
trade causes
temporary
suffering.

If machinery enriches a people, and especially if it enriches the working people, why did the working people of all nations object to its introduction? We have a proverb, "There is no smoke without fire." The truth of the matter is that labour-saving machinery does cause suffering among a small number of people for a short time. We have seen in the instance of the Changs and Lius; the cleverer Changs and Lius would cause loss to the stupider Changs and Lius, and that this loss would continue until one of two things happened, until the stupid people became clever, or until they got other employment. We have shown that, though ultimately even the wages of unskilled labour increases with the introduction of machinery, or, in other words, though every saving of labour will ultimately benefit stupid as well as clever people, yet in the myriad products saving of labour is effected at different rates and in different proportions, causing there to be fluctuations in value, forcing some people either to study more or to change their mode of livelihood. This entails some suffering, less indeed than the benefit ultimately derived, but often very acute at the time. In the language of political economy, *dislocation of trade causes temporary suffering*. The people thrown

out of employ may take a long time to learn or get another employment, and if they have been living from hand to mouth, and have no savings, then sufferings will be acute. To allow these people to starve, or grow weak from want of food, would be not only wicked, it would be foolish; wealth will ultimately be gained by the community which does two things when there is a dislocation of trade. Educate its people and maintain the starving workmen thrown out of employ until they can get other work; this can be done in two ways: by the State and by private charity. And the more wisely it is done the more will the country grow wealthy by saving of labour and by the introduction of machinery.

To sum up:—

I. *If there is free exchange, saving of labour in one trade benefits the persons engaged in that trade and persons engaged in other trades.* Modes of fostering saving of labour.

II. *Labour-saving should be carried out where there are natural advantages and by the persons most capable.*

III. *What saves time saves money. "Time is money."*

IV. *The same rules apply to a nation as to an individual; what enriches an individual will also enrich a nation as far as the saving of labour is concerned.*

V. *Labour-saving causes dislocation of trade, and like all changes, even salutary ones, entails a certain amount of temporary suffering.*

VI. But the benefit it confers is greater than the suffering it entails.

VII. *This suffering should be minimised by education and by finding people thrown out of employ other work, and in this sphere both the action of the State and that of individual charity may be evoked.*

VIII. *In order to induce people to exert themselves and benefit the community by discovering new modes of saving labour, it is desirable that the discoverer should be rewarded according to the result of the work he does; in other words, he must be honestly paid. In the West this is done by allowing the discoverer*

to take out a patent, which gives him for a certain time the right to prevent other persons using his discovery without his permission, a permission he is allowed to sell or let. Patent rights in England are worth many thousands of pounds.

We see also that in the saving of labour as in division of labour, and in the exchange of commodities, the more we study and apply other principles of political economy the more will it enrich a nation.

CHAPTER IV.

Money.

IN Chapter I it was shown how men gain by *division of labour*; in Chapter II how they gain by *freedom of exchange*; in Chapter III how they gain by *saving of labour*. When men began to work at different work, it was necessary to allow one man to exchange the produce of his labour for the produce of other men's labours. This process of exchange increased in volume and profitableness as implements and machinery more and more saving labour came into use. In very early days it was found that it was very inconvenient effecting exchange by simple barter. One man might have more rice than he wanted and another man more arrows. The rice grower might desire arrows, but the arrow maker might not desire rice, or *vice versâ*. One of two things would happen: there would either be no exchange, or else the arrow maker would exchange his arrows for the other man's rice in the hope of finding someone else who wanted rice, and who would give him in exchange something he did want; in that case he would ask more rice for his arrows than if he wanted the rice himself, because he would have to calculate on the time and labour it would take to find a man who both wanted rice and would give him what he wished in exchange; he would also have to reckon on the chance of the rice spoiling and on the work it would entail to take care of the rice.

Necessity of
a medium of
exchange.

The man who had more rice than he wanted would want other articles besides arrows; he would want, say, clothes, shoes, hats, tobacco, a pipe, &c. It would be a great trouble carrying round his rice to each of the people who produced the

articles he wanted on the chance of their wanting rice and of their giving him what he wanted in exchange for it. Almost all people have adopted a *medium of exchange*, that is to say, they fixed on something for which everybody would exchange what he wanted to sell. The man who had more than he wanted of one thing would exchange his surplus for what he could purchase anything he liked with; he could thus easily get what he wanted, because he offered something that everybody would take in exchange, and what everybody will take in exchange is to almost all intents MONEY.

Different
kinds of.

The sort of money used has differed at different times and in different nations. The nations that first had the most *division of labour*, most *freedom of exchange*, most *saving of labour*, were the first to make use of money; and the people who understood best have used the better sort of money. The progress of the world in knowledge of trade has been gradual, and some nations have advanced in this knowledge more rapidly than others: the consequence is that various nations have various kinds of money, and each nation has often changed its own currency.

At the present moment the Mongols all will exchange their cattle for *brick tea*, so brick tea is used as money in Mongolia. Some tribes in Africa will exchange their products for beads, some for gunpowder, some for nails, some for cotton cloth, some for knives. Among these tribes beads, gunpowder, nails, cotton cloth, and knives are used as money. In some parts of Hupei opium is used as money.

As I before stated, money must be what everyone will exchange the things they want to sell for; there are several things for which everyone will exchange things for; which of these exchangeable things are or is best to use as money?

Axioms as to
best forms of
money.

The first axiom is *money should be portable*. In ancient days among some people cattle was used as money—sheep, goats, horses, oxen, camels, &c. It was found out that cattle, besides other disadvantages, were not portable, so instead of taking an actual sheep, goat, or horse in exchange, the figure of

a goat, sheep, or horse was stamped on a bit of metal, and this bit of metal represented the value of a goat, sheep, or horse.

The second axiom found out was that *money should be indestructible*; people who took cattle and grain in exchange had to reckon on the former dying of diseases and of the latter spoiling by mildew if they had to keep them.

A third axiom found out was that the article used as *money should require labour to procure*. Stones that could be picked up by the roadside, though useful, would not serve as money, as what everybody could get for themselves, they would not take in exchange.

Fourth. *Money should be divisible*; different people wanting different quantities of produce, it was necessary that the medium of exchange should be so divisible as to give the exact equivalent of what was wanted.

Metals more than anything else possess the four qualities: *portability, durability, requiring labour to procure, and divisibility*. Hence among nearly all the nations of the world metals are used as money. The metals used as money have been gold, silver, bronze, copper, brass, nickel, and iron. Leaving out nickel, which is only very little used as money, and iron, which has been discarded as too cheap and including brass and bronze coins as copper, there remain the three metals—gold, silver, and copper. Gold is better for money than silver or copper, because it is more portable and less destructible than silver and copper. In large transactions it is easier to pay in gold, because it saves labour in carrying and counting to use it as money instead of silver or copper. But it is not so good as silver and copper, in that it is less divisible. In small transactions one cannot weigh out so small a piece of gold as only to be worth a few cash. Silver is more divisible than gold, but not so divisible as copper; it is more portable and less destructible than copper, and is consequently most useful in medium transactions, while in small transactions, when people who want to buy very little at a time, copper is the most useful as

money. In the West gold, silver, and copper are all used as money.

Coins, convenience of.

It was soon found that it saved the labour of cutting and weighing the metals used as money if they were divided into equal bits, each bit containing a certain weight of metal. In other words, the metals were made into coins. The people in each country soon learned to know the value of the coins issued in their country and took them in exchange without weighing them or testing the purity of the metal. In Western countries gold, silver, and copper are all made into coins. In China only silver and copper are made into coins, and silver only in small quantities and quite recently. In China the copper coins are not uniform either in weight or purity of metal; and so an immense amount of labour is lost in China in weighing silver, in ascertaining its touch, &c. When China has an adequate silver coinage she will become richer, as the labour she would save could be employed in producing wealth. To a small extent the use of foreign silver coins *is* an advantage, but foreign coins are not made of pure silver, and the amount of alloy in them differs, so that, before taking them, calculations have to be made as to their value. When China has a silver coinage of her own she will only have to make calculations in her foreign trade. In her domestic trade she will save a great deal of labour and grow richer.

The copper cash in China are not of the same weight and kind. There are the big cash of Peking and the small cash of the provinces. There are the mandarin cash, of which about 1,400 go to the Tael, and the ordinary cash, of which about 1,650 go to the Tael. When China has an uniform kind of cash through the empire much labour will be saved and China will be richer. It is a good thing the Chinese Government sees this, and is establishing mints in Canton, Hankow, Tientsin, Foochow, &c., to issue cash of an uniform weight and purity.

Gold and silver coins.

For a long time the value of gold, silver, and copper remained nearly the same as regarded each other, and the

governments of Western nations endeavoured to fix the relative values of the various coins in use in their countries. Thus in England a coin, containing one chien eight li of gold, was made equal to 20 coins, each weighing about one mace, six li, four hao of silver, and one of these coins of silver was made equal to 12 coins of copper, each weighing about seven mace, two candareens. That would suppose 1 ounce of gold to be worth about 16 ounces of silver or 960 ounces of copper. In France the gold coin contained one mace, four candareens, two li of gold, and was worth 20 silver coins, each containing nearly one mace, one candareen, and four li of silver, and one such silver coin was worth 10 copper coins, each weighing about six mace, eight candareens, and four li of copper. The French system, as the English, computed gold to be 16 times the value of silver and about 960 times the value of copper; 20 English gold coins are accordingly worth 25 French gold coins, and 20 English silver coins are worth about 25 French silver coins; 24 English copper coins are worth about 25 French copper coins.

In England accounts are kept in gold coins, in France they are kept in silver coins. Our system of dividing silver coins into 12 copper ones is not so easy to reckon with as the French system of dividing the silver coins into 10, and our system of counting in gold, silver, and copper not so easy as the French system of only counting in silver coins. The relative price of gold and silver sometimes changes. It was very inconvenient in England in old times, when gold was worth only 15 times the weight of silver instead of 16, that the value of an English gold coin should be worth $18\frac{3}{4}$ silver coins instead of 20, or if gold was worth 17 times the worth of silver, instead of 16, that the gold coin should be worth $21\frac{1}{4}$ silver coins instead of 20, so it was made obligatory for every one to give or receive 20 silver coins for one gold coin, but it was also decided that when the account was over one gold coin gold should be paid. This law had three effects: 1st. It increased the demand for gold. 2nd. It decreased the demand for silver. 3rd. It fixed the value of English silver coins as long as they remained in England, but

when they went to a foreign country they were only worth the silver they contained.

Standard
of value.
Depreciation
of value.

For a time foreign gold and silver coins were dealt in simply as metal and varied with the varying price of gold and silver. Afterwards, France, America, Germany, and other countries also decided that gold should be the *standard of value* in their countries, and that all debts over a certain amount should be paid in gold; they fixed the value of these coins at practically the same ratio as England had done, namely, about 16 to 1. When this had been done their silver coins were accepted in England, not merely as so much silver, but as money. The only thing to be taken in account was the trouble and expense of sending the silver coins to the country that issued them and getting gold back in return. As each country adopted gold instead of silver as its standard of value, there was a greater demand for gold and a less demand for silver. Gold went up in price and silver went down, so that now 1 ounce of gold is worth 32 ounces of silver. Part of this rise in the price of gold is due to various Western nations using gold as the standard of value, but part of the rise is due to other causes. The depreciation of silver has taken place during the last 30 years, and in the same period there has been discoveries of rich silver ore in Italy, Australia, America, &c., and not only have there been these discoveries, but during the same time there has been a great improvement made in the machinery for smelting silver from the ore, saving the labour and consequently lowering the cost of production. It is difficult to say how much the difference of the ratio of price between gold and silver is caused by the greater demand for gold, which we will call appreciation of gold, or by the less cost of production of silver, which we will call the depreciation of silver. Just now Japan has adopted gold as the standard of value; her mere proposal to do this sent up the price of gold, and gold has risen still more since. All the European countries and America are discussing whether it is possible to fix the relative values of gold and silver. Some economists think this impossible, others

Bimetallism.

think it possible if all the nations of the world would agree on the same system, others think it possible for one nation to fix the relative value of gold and silver in its own territory. Some economists think it desirable for governments to fix the relative value of gold and silver, other economists think it undesirable.

To form an opinion on the subject it is necessary to study:—

1st. What are the effects when all the metals used as money become cheaper?

2nd. What are the effects when one metal used as money becomes cheaper, and the others do not, in countries where there is no standard of value?

3rd. What are the effects when the metal used as the standard of value becomes cheaper?

4th. What are the effects when the metal not used as the standard of value becomes cheaper?

In the history of Western countries and of China we shall find answers to all four of these questions.

From the beginning of the Sung dynasty to the end of the Yuan dynasty gold, silver, and copper gradually grew cheaper. The prices of all other commodities gradually became dearer, and wages gradually rose in money, but the labourer was not better off, because he had to pay more for his food and clothes. Afterward in the beginning of the Ming dynasty America was discovered, and there came suddenly to Europe an immense quantity of gold and silver; this enriched the Western nations on the whole, but the riches only went into a few families; prices of all commodities went up, but wages did not go up so quickly, so the poor people for a time were worse off than before, for they only received the same money as wages, and this money did not buy as much food and clothing as formerly. By and bye as the rich men wanted to spend the gold and silver they obtained from America, in building larger houses, in making merchant vessels to go to America to get more gold and silver, and in buying handsomer clothes, the workmen got

more work to do, more workmen were wanted than could be got, and the prices of wages went up, even more than the prices of commodities, so the workmen ultimately, but after terrible sufferings, grew richer and lived in more comfortable cottages, ate better food, had better furniture; in other words, *the standard of living was raised.*

So we see a gradual fall in the price of metals, used as money, sends up the price of commodities and increases the price of labour. A sudden fall in the price of the metals used as money, like all dislocations of trade, causes temporary suffering, but ultimately enriches a nation and raises the standard of living.

In reply to the second question we have only to look at what constantly takes place all over China. When silver is plentiful its price in cash goes down. The workmen who earn their livelihood in cash can get more silver for their day's work. The prices of articles sold in silver do not drop in value as quickly as silver, while the articles sold in cash remain at the same price. The principal gainers by the fall in the price of silver are the workmen who receive their wages in cash and the shopkeepers and others who sell their goods for cash.

What are the effects when the metal used as the standard of value becomes cheaper? When I was a child great discoveries of gold were made in California and Australia, and an immense amount of gold came into England, making the price of gold fall; this happened about 1848. The first effect was to raise the price of all other commodities than gold; the price of commodities being raised, there was a greater demand for labour, and wages rose, but not till after the price of commodities had gone up. The great quantity of gold that came into England made people live more luxuriously and raised the *standard of living*. At first persons with small fixed incomes were greatly embarrassed in two ways:—1st. They found their incomes would not purchase as much as formerly. Secondly, they found it the custom to live in a grander style than formerly, and this they could not do, so fell into a lower social class, but in a few

years they or their children had more ways of making money and the general stimulus which the supply of gold gave to trade, manufactures, railways, steamers, and inventions, caused there to be a demand for workers of all classes; wages and salaries rose more even than the price of commodities, and the whole community was made richer, but not in the same proportion. A few very successful men in France, England, and America amassed millions. The labourers, professional men, and traders, though they earned more, spent more, and though they got more comforts did not feel themselves richer, as all of their class were living in the same style that they were. A certain number of people, with fixed incomes, who were too old or too feeble to adapt themselves to the new circumstances, became both relatively and absolutely poorer. The sufferings of these people, though acute to themselves, were not much in comparison with the increased comforts of the generality of the nation. The cheapening of gold was undoubtedly a benefit to the nations where gold was the standard of value.

Now, what is the effect of the cheapening of a metal used as money in a country but not as the standard of value? The effect seems different in a gradual fall to what it seems in a sudden fall. Thus for the last five centuries copper has become cheaper; the result of the cheapening of copper has, in countries which use copper as a standard of value, raised the prices of commodities, of wages, and the standard of living. In countries that do not use copper as the standard of value, it has increased the gains of minting copper coins. The amount of copper coins in circulation in foreign countries is of but small value. They are not hoarded, and consequently are accepted at their face value more as circulating promises to pay than actual payment. In Western countries wages are generally paid in silver and gold, and therefore the fall in the price of copper has not been felt, and as far as its use as money is concerned, has not had much effect. Its fall in price as a commodity has greatly stimulated trade and increased wealth by lessening the cost of production of all commodities in which copper is an ingredient.

In the last 30 years there has been a very rapid fall in the price of silver, the effects of which have been different in different nations. The difference has been due to the difference of the indebtedness of various nations, and also greatly as to whether the countries used gold or silver as the standard of value.

In nations like England, where gold is the standard, the first effect was to send down the price of wheat and cattle produced in silver-using countries, and this injured the farmers and landlords in England, as the latter were unable to let their agricultural lands at such high rents as before, but what the farmers and landlords lost was gained by the community in cheaper bread and cheaper meat. It injured the manufacturers of goods sold abroad for silver, for they had to pay for their machinery and wages in gold the same as before, but the silver the goods sold for did not give them as much gold as before. Part of this loss the manufacturers got back by having to pay less gold for raw materials, such as cotton; partly they recouped themselves by improving their machinery and producing the commodities at less cost. On the whole, however, they have lost, or at all events have not had as much profits as they would otherwise have gained. A third class of Englishmen who have lost by silver becoming cheaper are people whose capital or incomes are in silver, such as employés whose salaries are in silver, and investors in securities which give silver dividends. A fourth class which has suffered has been that of the workmen whose trade has been impaired by the foreign competition of silver-using countries, who have been thrown out of employ, or who have not obtained so much employment as before.

A sixth and most important class of people who have suffered by the fall in the price of silver have been the debtors who owe gold, as they have had to pay more silver as interest of the debt, and as silver has not depreciated as much as gold has appreciated, they have to pay much more of the products of their labour as interest than they contemplated.

In countries that use silver as the standard of value the cheapening the price of silver has stimulated industries, but it has increased the cost of living, and as yet wages have not risen to counterbalance this increased cost. Besides having to pay the interest of all debts in gold, debtor nations have to pay much more silver than was contemplated at the time and to give their creditors more of the products of the country.

The gainers by the fall in the price of silver have been creditors and gold investors; and persons whose wages and salaries are paid in gold have also gained by being able to get almost every commodity cheaper than before. Further, if we look at silver as a simple commodity, but not as money, the whole world has grown wealthier by the lessening of the cost of its production, and consequently lessening the cost of all commodities in which silver is an ingredient.

I am of the opinion that the fall in the price of silver has, on the whole, been a benefit to humanity, but this benefit, though widely spread, has not been much noticed. People are so in the habit of considering money as wealth, that they do not always perceive that if the things they want to buy become cheaper, they are richer, though they have no more money than before.

In gold-using countries the effect of the cheapening of silver has been to take away wealth from the landlords, farmers, manufacturers, and some of the workmen and diffuse it among the community in cheaper commodities. In silver-using countries the effect of the cheapening of silver has been to make the rich richer and the poor poorer while increasing the aggregate wealth of the nation. In gold-using countries the volume of trade has increased, but the profits have been smaller, *id est*, wealth has been more evenly diffused. In silver-using countries the profits have been swallowed up by the big capitalists.

The very large classes in all countries who have lost by the cheapening of silver are urging their Governments to pass laws allowing all payments to be made either in silver or gold

Fluctuations
of exchange.

at a fixed rate, that is, to fix the relative price of silver and gold. Some people think the effect of such a law would, if the price of silver were fixed above its cost of production, that is, the present cost of producing silver, merely drive all gold out of circulation, for people who got gold coins would either melt or hoard them. Most, even of those who wish Governments to fix the relative price of silver and gold, do not wish one Government to act alone, but wish for a consultation of all the nations of the world on the subject. Now, whatever opinions one may hold as to whether it is feasible or desirable for Governments to fix the relative prices of gold and silver, there is no doubt that an international conference on money would be useful. If such conference could, and this does not seem impossible, hit upon some plan to prevent the sudden fluctuations of prices of silver and gold which are not due to the relative cost of production, it would do much to mitigate the suffering that these *dislocations of trade* are now causing, and it is quite conceivable that this might be done without checking the production of either metal. Perhaps the conference might adopt a compromise between the gold monometallists and bimetallicists. If, for instance, payments in silver were made legal up to 100 ounces of silver at a fixed value, and beyond 100 ounces payment to be made at the market rate, the demand for silver would increase without checking the production of gold, which its present high price is effecting.

Still greater benefit would ensue if all, or many of the Western countries, would adopt a uniform system of coinage and allow each other's coins to be legal tender up to a limit of say £10. One difficulty in the way of this is every country would wish to mint the coins on which there was most profit. To obviate this some arrangement would have to be come to as to the number of such coins each nation should issue. It would be better still if a neutralised State like Switzerland would undertake the supervision of an international coinage in the same way she undertakes the supervision of the international postage system.

CHAPTER V.

Credit.

UNLESS men trust each other there can be no acquisition of wealth. Trust is a foundation of riches. When a labourer does a day's work he does it in the trust that his employer will pay him his day's wages. When an employer gives "bargain money" to a workman, he does it in the trust that the workman will perform the work for which he has been paid bargain money. When a shopkeeper or merchant sells goods on credit, he does so in trust that the purchaser will pay for the goods; when he receives payment in bank notes he does so in the trust that the bank issuing these notes will pay them when presented; when he receives payment in cheques, he does so in the trust that the drawer of the cheque will have funds in the bank on which the cheque is drawn, and trust in the bank that it will honour it; when he receives a Bill of Exchange in payment, he does so in trust that the drawer has authority to draw, and that the drawee will honour the bill. When the bill is not a "sight bill," it is generally presented to the drawee for acceptance. Sometimes for greater security it is considered desirable to get a third party to endorse or back the bill; in this case the person who receives the bill trusts the endorser, in case drawee and drawer fail to pay. Mutual trust.

The way trust or credit enriches a nation is that it saves labour; no great trade could be done if in each transaction the money had to be counted out by the purchaser and paid over to the vendor. In many cases the purchaser has no intention of retaining the goods for himself; he only buys to sell again at a profit. If he had to pay for everything he buys at the

moment of the purchase he could not do so big a business; in other words, much of his labour, or capacity for labour, would be wasted. The vendor in selling goods to the purchaser on credit, trusts that the purchaser will ultimately pay, and in doing so he unconsciously trusts that the customers of the purchaser will pay the purchaser. In these simple transactions the benefits of the credit system are:—1st. It saves labour by enabling a man to do a big business with little work. 2nd. It facilitates division of labour by enabling some men to devote their whole attention to the production and others to the distribution of wealth, and among the latter class it facilitates the division into wholesale and retail dealers. 3rd. It facilitates the interchange of commodities.

Each development of the credit system, or in other words, each increase of the trust of man in man, increases the wealth of nations. Of course when one speaks of trust one means a prudent and not a blind trust. Honesty and prudence are the foundations of trust; dishonesty and imprudence destroy trust. It is manifest the amount of trust we can prudently repose in any person depends on three factors:—1st. His honesty. 2nd. His ability to pay. 3rd. The probability of his being forced to pay in case he should be dishonest. The last factor will be most effective when the tribunals to which he is amenable are wise and just and when the laws such tribunals administer are wise and just also; that is, there should be good commercial laws and good tribunals. In these respects England is in a better condition than China or Japan, and therefore more credit is given to, or in other words, more trust is reposed in Englishmen than in Chinese or Japanese, and the credit system in England has been far more perfected than it has been in China or Japan. This places England in a better position for obtaining wealth than China or Japan. Englishmen and English companies have a better credit than Chinese or Japanese; more trust is reposed in them; they can borrow money on easier terms, and this is one of the reasons they are able to compete favourably with the Chinese and Japanese.

Good laws
and adminis-
tration
necessary to
increase
mutual trust.

The tea growers of India and Ceylon who only pay 4 per cent. a year for their borrowed capital, have an advantage over the tea growers of China and Japan, who have to pay from 8 to 30 per cent. for their borrowed capital.

Let us glance at how the present credit system in the West came into existence, and at the broad principles of commercial law that have been acted on to meet the various new requirements created by new developments of the credit system.

It had been found that in large transactions it was inconvenient for the purchaser to have to weigh or count out money for each transaction; it was also found inconvenient for the vendor to take possession and charge of the money. It was desirable that money should be placed somewhere to be at the command of the person entitled to it. Further, many persons who possessed valuables, such as jewels or land, might be in urgent temporary need of money and might be unwilling to sell the jewels or land, but might be willing to borrow money on them; hence arose pawnbrokers and bankers, who did the double business of taking care of the money of people who had more money than they immediately wanted to use; and of lending money on security to people who had other property than money, but who wanted for immediate use more money than they possessed. In both cases depositors and pawners had to impose trust in, or in other words, give credit to bankers and pawnbrokers with whom they dealt. They had not only to trust in the honesty of these persons, but they had also to trust in their care and caution. In the bankers, that they would not speculate rashly and lose the money, that they would be careful not to pay forged cheques, &c. In the pawnbrokers, that they would take care of the article pledged, and not allow it to be stolen. In case of land or houses being pledged as a vifgage, that the vifgage would not allow the land to get out of cultivation, nor the houses out of repair. In order to increase this trust good laws were passed making the banker responsible if he paid a forged

Banks and
pawnbrokers.

cheque, making pawnbrokers responsible for due care in the custody of the things pledged, and further, to prevent facilities for theft, in some cases pawnbrokers were bound, before advancing money on valuable pledges, to satisfy themselves that the persons offering the articles in pawn, had honestly come by them. The French laws as to pawnshops are particularly good. In France pawnshops are a government monopoly, and are so worked as just only to pay their expenses; the consequence is that thieves dare not attempt to pawn stolen articles in them; and the facilities, and therefore the temptations to theft, are much decreased. The poor obtain advances at the lowest possible rate of interest, for the Government doing business on a large scale is able to keep down the cost of administration to a minimum, and as the Government makes no gain the people who borrow money obtain the loan on easy terms and have not to pay the large profits that private individuals, who take up the business of pawnbrokers, would demand. With regard to vifgages, in case the vifgee does not take due care of the land and houses, a good law will give the vifgagor a remedy in letting him sue the vifgee for damages, "waste" as it is called.

Bank notes.

Another form credit has taken is that banks, which hold money, are allowed to issue bank notes. Bank notes are only promises to pay something, generally a specified amount of gold, silver, or copper. Their value depends on the trust in the bank that issues these promises. Bank notes are very convenient, as they are very portable, and in countries where only the national banks issue them, they are universally received as money. Their being received as money facilitates trade by saving time and labour in counting money, besides other advantages. To increase the confidence and trust in bank notes in England there is an Act called the "Bank Act," which compels the bank issuing the notes always to keep in its treasury a quantity of gold and silver proportionate to the value of the notes issued. This law was necessary and expedient at the time it was passed, and it is doubtful whether

it can yet be safely repealed; it has tended to confirm the trust in the notes, but on the other hand, it has kept idle a quantity of gold and silver, which would otherwise have been useful in circulation among the people. In times of commercial depression, when there has been a panic and a rush to the bank to change the notes into gold, it has been found necessary to suspend the Act. Perhaps if the Government would secure the payment of bank notes the bank need not be forced to keep a larger reserve than is necessary for its current business, and there would not be such a quantity of money lying idle as is now the case.

A bank note is a promise to pay, not to any one person in particular as a Bill of Exchange, but to any person who holds it. It is transferable without endorsement or any formality. It is a "*negotiable instrument*," differing from a Bill of Exchange or a cheque drawn to order, in that it does not require to be endorsed. It differs from metal money in two respects:—First, payment of a bank note can be stopped. Each bank note bears a number, and if therefore I lose a bank note, and know the number, I can give notice to the bank to stop payment. This stoppage is only for purpose of enquiry. If the person who presents the note can show that he came by it honestly the bank is bound to pay, and the loser of the note suffers the loss. If a man loses money of course he cannot get the money stopped. Again, if instead of losing the note the note gets destroyed the owner of the note can, on proof of the note being destroyed, recover its value from the bank. Thus, and this is an ordinary case, if the notes are destroyed by fire the holder can recover their amount from the bank by presentation of the ashes.

Another form of *credit* or trust is shown by the system of Cheques. cheques, that is, a man who has money, instead of keeping it in his house, and thus tempting thieves and robbers, sends it to a bank and draws cheques on the bank for the amounts he requires. Cheques are of three kinds—cheques made payable to bearer; these, like bank notes, are *negotiable instruments*

without endorsement, that is, the bank is bound, if the drawer of the cheque has money in its hands, to pay the amount of the cheque to any one who presents it; like bank notes, cheques to bearer can, in case of loss, be stopped for enquiry, but if the holder shows he has honestly come by them the bank is bound to pay and the loser suffers the loss. Secondly, cheques can be made payable to the order of a particular person; in such case they are not *negotiable instruments* until they have been endorsed by the person in whose favour they are drawn. When *endorsed* they become *negotiable instruments*, and stand in the same position as cheques drawn to bearer. Thirdly, and this is the most usual course, cheques can be not only made payable to the order of a particular person, they can also be crossed, in which case they can only be paid through a bank. The effect of this is that a crossed cheque is safe to be paid to the benefit of the party entitled to it. No banker will receive or cash a crossed cheque unless he knows the person presenting it. A crossed cheque is a far safer way of transmitting money than a bank note. It is advisable to cross all one's cheques, as if they are lost or stolen the finder or thief can make no use of them, and one can safely write a duplicate.

Each time a banker receives a cheque he credits the amount to the person sending it and debits himself. If the cheque is on another bank, he further credits himself and debits the bank on which the cheque is drawn. At fixed periods the various banks exchange cheques, but they do not necessarily collect the balances due; they debit and credit each other with these balances. Now not one per cent. of the business of the world is done with actual money; it is almost all done on the credit or trust system. This has a double advantage: 1st. In ninety-nine transactions out of a hundred it saves the labour of counting out, weighing and shroffing money. 2nd. It allows a hundred-fold more business to be done than could be done with the gold and silver in circulation. China's trade with foreign countries is over 200,000,000 Taels a year. The amount of treasure imported and exported is trifling in

comparison with the volume of the trade ; trifling as the amount is it is much greater than the proportion of countries (like England and France) where the credit system has been carried to greater perfection and has been fostered by wise commercial laws and trusted tribunals which enforce the laws.

Another system of credit is effected by *Bills of Exchange*. A merchant buys say, Taels 100,000 worth of tea ; he has not so much capital, and he therefore borrows money from a bank and gives in exchange Bills of Exchange at 30 days' or four months' sight as the case may be ; that is, he draws on the consignee of the tea who, on being shown the Bill of Exchange, promises to pay the amount of the bill when it falls due ; he does this in the hopes that meanwhile he will be able to sell the tea and realise the proceeds. It is obvious that as cargo may fall in value, or be lost, the bank must take precautions ; one of the precautions it takes is that it does not advance the full value of the tea, but only say, 80 per cent. of the value ; another is that it will insist on the tea being insured ; it may sometimes ask also that the Bills of Lading be lodged in its hands. This brings us to two noteworthy features of the credit system : 1st. What is called *marginal credit*. Secondly, the extension in modern years of *negotiable instruments*. The first we shall find to be a spontaneous result of the extension of commerce, the second is an instance of wise laws aiding and facilitating trade.

We have taken the case of a single transaction of a person buying Taels 100,000 of tea ; on this tea he obtains an advance from the bank of say, Taels 80,000. If therefore he had no other resources but his own he would be obliged to have at least 20,000 Taels capital before he could buy Taels 100,000 worth of tea, and if within a short time before the first tea could be sold he goes in for 10 such purchases his capital should consist of Taels 200,000, or, in other words, a man's capital would have to be 20 per cent. of the volume of his trade. In some instances this is the case, and such person is hampered by want of capital. But in other instances trust or credit supplies

Marginal credit.

the want of capital. If a merchant is known and trusted he can obtain what is called *marginal credit*, that is, a rich firm will give him credit or secure him to the extent of say, Tael 100,000. In this case he can do a large trade with a small capital, and it is manifest that the persons in whom most trust and credit is reposed are at an advantage as compared with those in whom less trust is reposed.

Bills of
Lading.

In order to increase this trust and credit, good laws are requisite to protect the creditor; no one will lend unless he hopes to get back his money, and the surer he is of getting it back the readier he will be to lend and the easier will be the terms he grants to the borrower. The wealth of a nation is increased by the easiness with which money can be borrowed. It is therefore desirable to pass laws to protect lenders from loss; this has been done in Western countries by elaborate enactments on Bills of Exchange, Bills of Lading, Warehouse Receipts, &c., the leading principle of which is to facilitate the recovery of money lent on Bills of Exchange and negotiable instruments. (Bills of Exchange, when endorsed by the payee, are negotiable instruments, that is, are payable to the holder.) If an endorsed Bill of Exchange is lost it can, like a bank note, be stopped for enquiries, but if the holder has come by it honestly the holder has to be paid. The law with regard to Bills of Lading has also been framed to facilitate trade by increasing credit: they are now, when endorsed by the assignee, *negotiable instruments*, that is, the master of the vessel is authorised to deliver the cargo to the holder of the Bill of Lading; creditors of the consignor who do not hold the Bill of Lading cannot claim the goods for debts owed to them by the consignor. It is obvious that this, being the law, facilitates trade, because people would not advance money on Bills of Lading on as easy terms as is now done if the ownership of the goods covered by the Bills of Lading could be disputed.

Warehouse
Receipts.

So, too, with Warehouse Receipts. These receipts, when endorsed by the person in whose name the Warehouse Receipt stands, are *negotiable instruments*, and can be transferred by

simple manumission in the same way as Bills of Exchange, bank notes, endorsed cheques, &c., and the holder of such Warehouse Receipts can get money advances on them to carry on his business before the goods are sold and the proceeds of the sale come back to him. The original vendor can always protect himself by—until he is paid for the goods—insisting on the Bills of Lading being consigned to him, or on the Warehouse Receipts being made out in his name, and then he will have a “LIEN,” or hold, on the goods till he is paid; otherwise he must be content to be an ordinary creditor without the special security of a hold on the goods covered by the Bills of Lading or Warehouse Receipts. In these and other points it is of immense advantage to trade that the law should be certain and uniform. Traders are able to give and get credit more easily when the law on the subject is fixed and certain. Both lender and borrower gain; the lender by having more numerous safe investments, and the borrower by being able to obtain loans on easier terms.

Besides these forms of credit a very common form of giving credit is on what is called “*personal security*,” that is, the borrower gives a “*promissory note*.” The possessor of a promissory note stands in a better position than an ordinary creditor, in that he is not required to prove the debt; the promissory note itself is considered proof of this. The interest on debts, where there is only personal security, is naturally greater than on debts where there is other security.

Personal
security.

Credit is often given on land and houses, either by way of “*mortgage*” or “*vifgage*”; in the former case the lender is paid a fixed amount of interest, and has the right, if the principal and interest is not paid, to foreclose, that is, to obtain possession of the land and houses or immovable property. In the case of a vifgage the lender, instead of interest, has the use of the house or land. Both vifgages and mortgages differ essentially from advances made on Bills of Lading. In the first place, vifgages and mortgages have to be executed with great formality. Secondly, the holder of a vifgage or mortgage

Mortgages
and vifgages.

is not by the viſſage or mortgage entitled to be the owner of the land; before he becomes the owner there muſt be either a formal foreclosure, or a deed of assignment transferring the land or houſes to him, and further, he muſt diſcharge all the previous obligations and debts of the land and give the mortgagor the balance between the value of the land and the debt before his title to the land will be perfect.

Some economists think it would be deſirable if loans could be granted on immovable as eaſily as on movable property. Without diſcuſſing theſe views it is eaſy to ſee certain differences between immovable and movable property, rendering it leſs neceſſary to facilitate by law loans on immovable property than on movable property. Immovable property is not ſo quickly deſtroyed by conſumption; the quantity of it, though enormous, is not unlimited; land is not a product of human energy, and though houſes are, they are not produceable to the ſame extent as other movable property. There is not the ſame conſtant change of ownership, nor the ſame frequent dealing in immovable property that there is in movable property. The owner of immovable property can always obtain a loan on it on eaſy terms, becauſe it cannot be carried off, and is not eaſily deſtroyed. Thus while inſurance on houſes is only one-eighth per cent. a year inſurance on ſhips is probably about 10 per cent. a year.

Letters of
credit. .

Another form of truſt or credit that tends in a minor degree to increaſe the wealth of a nation is the practice of granting what are called "*Circular Letters of Credit.*" This form of credit has only recently come into practice. It conſiſts in a man who is about to travel, on buſineſs or pleaſure, getting his bank to give him a circular letter of credit up to a certain amount, which enables him to draw money all over the world wherever his bank is known and truſted up to the amount of his credit. When his bankers are adviſed of his having drawn money anywhere, they debit his account with the amount he has drawn. The advantage of this ſyſtem to the holder of the circular letter of credit is, he can go and do buſineſs all over

the world, and can get money at once anywhere without having to go to the expense of a telegram being sent to his bank to show he has credit there. At the present moment the holder can obtain money on a circular letter of credit granted by a good bank in almost every town in Europe and the United States, at all the principal places in Africa, throughout the Russian dominions in Asia, in all the treaty ports of China and Japan, and at many of the larger inland towns in those countries. It is evident that what makes it possible to grant circular letters of credit is trust reposed in the bank issuing them by the banks in other parts of the world. This trust must have been merited, or it would not be reposed; before such trust is reposed three things are necessary—honesty, good laws, and good administration.

NOTE.—Bills of Lading and Warehouse Receipts differ essentially from bank notes and cheques, in that the former entitle the holder to specific goods. Cheques and bank notes entitle the holders to a specific amount of specie. Bank of England notes, in England, differ from cheques as being legal tender, which cheques are not. By Chinese law a bank note is no more legal tender than a cheque. If the bank note is dishonoured the mere reception of the note does not extinguish the debt.

CHAPTER VI.

Loans, &c.

Lending a
proprietary
right.

ANY person possessing anything can do three things with it: he can use it himself, he can sell it, or he can lend it. In case he elects to lend it he requires to be paid for the loan, and, if the article is damaged by the use, or deteriorates by lapse of time, for the deterioration also. When money is lent the object lent is called *capital*, and the price paid for the use of it is called interest. When immovable property is lent the price for the use of it is called RENT. When movable property is lent the price for the use of it is called HIRE. When human strength or skill is lent the price for the use of it is called SALARY, WAGES, &c. When a place in a carriage or boat is lent the use of such place is called FARE, FREIGHT, &c.

Interest, rent, hire, salary, wages, fare, freight, &c., have all one quality in common; they are the price paid for the temporary use of a thing. In order that there may be what Mencius calls "a free circulation of products," the process of lending and borrowing, as well as the process of buying and selling, should be facilitated as much as possible. As far as practicable no obstacles should be placed in the way of lending and borrowing. The lender should be able to recover easily the payment for the use of the thing lent, and this is to the interest of the borrower as well as of the lender, because the surer the lender is to recover this payment, the easier will he make his terms to the borrower. *Bad security makes interest high*, and generally *high interest means bad security*. The reason of this is that not only are there a great number of people who want to borrow, there are also a great number of people who want to lend. Some of the people who want to lend are bold and speculative, some are

timid and cautious. The bold and speculative are willing to incur the risk of losing their money on the chance of high profits; others prefer low profits with security. In the introduction I showed how *demand and supply* affects the price of commodities. I shall deal with the subject more in detail in a future chapter; here it is sufficient to say that the law of *demand and supply* regulates the price of lending things, that is, of *interest, rent, hire, salaries, wages, fare, freight, &c.*, as it does the price of commodities.

We know that Governments and trades unions constantly endeavour to fix the price of *interest, rent, hire, salaries, wages, fare and freight*, and we have to consider how far such interference increases or decreases the wealth of a nation, and how far such interference is justifiable on other grounds than that of economy.

First let us make *money*. Some people considered it wrong to take interest at all, and that if a man lent, say, Taels 100 for a year, he should at the end of a year only be paid back Taels 100. These people wished laws to be passed prohibiting the taking of interest; they thought such a law would benefit the poor; in reality such a law would injure both rich and poor—the poor more than the rich. The use of money for a year has a value, and if the holder of the 100 Taels could make 2 Taels by using it himself for a year, he would lose 2 Taels a year by lending it free of interest, and consequently would not lend it. A would-be borrower might be able to make 6 Taels a year by the use of the money for the year; in that case he would gladly pay 4 Taels for its use. The community would be poorer by 6 Taels a year if the money was not lent and not used at all, by 4 Taels a year if the money was not lent but used by the owner, than if it was lent at 6 Taels a year and by the loan each of the parties, borrower and lender, gain 2 Taels.

Up to recently most countries had laws limiting the amount of interest to be paid at what was considered a fair rate. Such laws were either inoperative or mischievous. Thus, the lender and borrower would agree to misstate the amount lent.

Loans of
money.

The borrower would acknowledge, say, to have received Tael 100, when in truth he had only received Tael 80, or a condition of lending the money would be made that the borrower was to buy pictures at a higher price than they were worth. The borrower who had not got good security, could not borrow at the legal rate; he had to agree to the lender's terms or forego the loan. The rate of interest was not really lowered by these *usury laws*. Production and trade were hampered by them.

When I was Vice-Consul in Canton, on the marriage of the Emperor *Tung Che* orders were issued to the pawnbrokers at Canton to remit one month's interest on all the money they had advanced. The borrowers, I was told by the pawnbrokers, never claimed this remission. If any borrower had claimed the remission the pawnbrokers would have granted it, but would have refused to make other advances to such person.

Though, as a rule, it is better to leave lender and borrower at liberty to fix the terms of their bargains, and for the Government only to see that the agreement is carried out, there are exceptions—few when money is concerned, but more numerous as to transactions in which land is lent.

One exception is that if an article absolutely necessary is owned entirely by a few persons, there will be a danger of those persons combining to charge so inordinate a price for its use as to be detrimental to the interests of the community. This does not often take place when money is lent, as so many people possess money that they compete with each other to attract customers. We know that when China and Japan borrowed money recently there was great competition among various nations to lend it, and China and Japan consequently obtained their loans at a very cheap rate, considering the security, far cheaper than if there had only been a few to lend. So it is with individuals; there are now so many bankers and lenders that they cannot charge exorbitant rates of interest to borrowers who have good security. The borrowers can go to different lenders and select the lender that gives them the easiest terms.

It must be borne in mind too that the kind of borrowing it is desired to facilitate is borrowing to use the money profitably, not borrowing to waste. This last sort of borrowing ought to be, and in many countries is, made difficult. In England debts of a person under 21 cannot be recovered by law unless they are for necessities which his parents ought to have supplied, but have not. So, too, with the debts of married women: such debts cannot by law be recovered from the husband unless they are for necessities which the husband has failed to supply. So, too, it is desirable to regulate pawnshops, to prevent their facilitating theft by making advances on stolen property, and to prevent them oppressing ignorant and poor borrowers. With regard to pawnbrokers, it would not, I think, hamper trade if each nation fixed a maximum rate of interest, provided such rate of interest gave a sufficient profit to induce respectable people to engage in the trade in sufficient numbers to supply the needs of the people.

In the loan of immovable property greater Government Rent. interference is desirable than in the loan of money, and probably greater interference in loans of land than in loans of houses. The reason of this is that land, unlike money and houses, is limited in quantity. Human labour and skill may increase the fertility of land, but cannot increase its quantity. Land is, further, absolutely necessary in order to grow food. If, therefore, the land in a country falls into a few hands, the land-owners are able to exact an exorbitant rent; the tillers of the soil are obliged to pay whatever is asked, and are ground down to poverty, and are ready to create riots.

The amount and nature of Government interference with rent should depend on the nature of the land tenure and the conditions of the country. Land tenure differs considerably in different countries. Hundreds of controversial volumes have been written as to what kind of land tenure tends most to increase the wealth of a nation. Some hold that land should not be owned by private individuals at all, but should be the property of the State, which should collect on it a fair rent or

land tax from the tillers. Others hold that land should be divided among as many private peasant proprietors as possible (this is largely the case in France). Others, that there should be a periodical division of land among families, the quantities being proportioned to the number of able-bodied in the family (this is largely done in Russia). Others (and this is the idea carried out in the United States, and until recently in Great Britain), that there should be a free trade in land. Each system has its advantages and disadvantages. It is difficult to say which most promotes the wealth of a nation. The French system makes the peasant wonderfully frugal and industrious. It also, by absorbing his interest in the land, makes him quiet and peaceable. On the other hand, want of capital prevents his using steam machinery, and a great part of his labour is wasted. The Russian system has its advantages in that it provides a living for the whole population, but it has its disadvantages. It forces men into a life of agriculture who have no taste or aptitude for it. It renders the Russian peasant reckless, and, as he has no permanent interest in his land, he does not take pains to permanently improve its fertility. Free trade in land has a great many advantages: it causes the persons to cultivate land who have most taste and ability in agriculture, it attracts capital to the land, and encourages the use of labour-saving machinery and scientific modes of cultivation; but it has also its disadvantages. I am not aware that these disadvantages have yet showed themselves in the United States, which is a vast and sparsely populated country; but in Great Britain, especially in Ireland and the highlands of Scotland, the disadvantages have been many. Ireland is a populous country, in which there are no minerals and but few manufactures; almost all its wealth consists of agriculture. Owing to various causes the land became the property of a comparatively few landlords, who often resided out of the island and exacted "*rack rents*" from the tenants, and who also forced the tenants to emigrate, because it paid better to use the land for grazing than for tillage. The consequence was,

the majority of the Irish were poor, discontented, and turbulent. The British Government has recently considered it advisable, instead of leaving landlord and tenants to make their own bargains, to fix a fair rent for the land, and efforts are now being made to establish peasant proprietors there by lending money to the tillers of the soil to purchase the land they till ; and in order to compel the landlords to accept a reasonable price for the land, the purchase money has been fixed at so many years' rent, the payment of the purchase money to be spread over a period of years. This action of the British Government contravenes a principle of political economy that *there should be freedom of contract*, but it is deemed more important in the present case to pacify the agriculturists in Ireland than to enrich the country.

With regard to houses, the Government does not interfere to fix fair rents, though in many large towns in England a few rich people possess all the land, and are able to demand exorbitant *ground rents*. An agitation is now going on in England to confiscate for the public benefit what is called the "*unearned increment*" of land—that is, the increase in the value of land not due to the skill and industry of the land-owner, but to adventitious circumstances, such as the land being situated in or near large, growing towns. Others are agitating to impose heavy taxes on these ground rents.

In China the land question has not taken the same phase as in Western countries. As a general rule, in China agricultural lands are owned by village communities, clans, and families more than by private individuals : and China, in order to prevent an increase in the number of people without resources and vagabonds, justifiably places great obstacles in the way of the transfer of land. These obstacles interfere with loans on land, and render the interest on such loans higher than it would otherwise be, as the lender has to take into account, when making the loan, the cost and trouble of getting the land transferred to him in case the borrower neglects to pay the debt. The fact that the borrower on land has to pay high

interest is detrimental to the wealth of China, but it would probably be still more detrimental for land transfers to be made so easy as to increase the numbers of Chinese without means of subsistence. What is more detrimental to the wealth of China is, preventing foreigners renting land. Foreigners, with their large capital and greater chemical knowledge, would be able to improve the tea, sugar, wheat, camphor, and other cultivations, and could inaugurate new cultivations, such as quinine, coffee, &c., and they could develop the mineral resources of the country, which are now lying idle.

With regard to the rent of houses in China, the practice of considering them movable property, and of allowing the renter of the land to remove the houses he has erected on other men's lands, is in the present condition of China very salutary.

Loan of
movables,
hire.

With regard to the hire of movable things : *hire*, as a rule, includes not only interest on capital, but also something for wear and tear or deterioration of the thing lent. In Western countries the movables ordinarily hired are steam ploughs and other agricultural machinery, borrowed by farmers who have not sufficient capital to make it worth their while to purchase them ; stallions, bulls, boars, rams, &c., to line mares, cows, sows, and sheep, borrowed by breeders and herd-keepers who have not sufficient stock to make it worth while to keep their own stud animals. In the hire of movables it has been found best, in most countries, for the lender and borrower to make their own bargains without the Government fixing the rate.

A common form of dealing with movables, especially furniture, is what is called *purchase on the hire system*—that is, the payment for articles by instalments spread over long periods. On the payment of the first instalment, the borrower is given the use of the article ; on the payment of the last instalment, the article becomes the property of the borrower. This *purchase by hire system* is now being largely adopted in Ireland, in order to enable the peasants to become proprietors of the land they till. It has been adopted with success in England by building

societies, especially with regard to houses for the artisan class. It enables the artisan to become the owner of the house he occupies. The adoption of this system is highly conducive to the wealth of a nation. It provides lucrative and safe investment for capital, and is therefore beneficial to the lender. It induces habits of thrift and industry on the part of the borrower, and makes him eager to save periodically the sum due as an instalment, instead of spending it on drink and expensive eating. It encourages the production of commodities, and tends to increase the wealth of a nation, not only by enlarging the amount, but also by fostering the moral qualities, thrift and industry, which produce wealth.

Other things borrowed and lent are talents and strength. As a rule when talents are lent the hire of them is called salary, when strength is lent the hire of it is called wages. The least possible wages that can long be paid for unskilled labour is enough to feed and clothe the labourer and his infant children ; if wages go below that point a nation must die out, but more than a bare subsistence should be paid as wages, and it has been found that high wages do not necessarily make labour dear, or even what is called unskilled labour. An English labourer receives about Mex. \$1.25 a day for 10 hours' work, a Frenchman only about \$1.00, and a Chinaman only 14 or 15 cents, yet it has been found that in building earthen embankments for railways, fortresses, &c., the cost is the same in England, France, and China, namely, about 16 Mex. dollar cents a cubic yard ; the reason of this is that the Englishmen, being better fed than the Frenchmen, are able to do more work in the 10 hours, and Frenchmen, being better fed than Chinese, are able to do more work than Chinese.

Salaries and
wages.

When workmen only demand fair wages, a nation does not lose by paying them. When workmen demand excessive wages the country does lose. Thus in America and Australia the European workmen's wages are higher than in England, and in many places in Australia and America the climate is better suited to less well fed people ; the better feeding does not enable

the labourer to do a proportionately greater amount of work. In Australia and America the immigration of Chinese labourers is discouraged, because they work cheaper than Europeans. In discouraging Chinese immigration to keep up the price of labour, America and Australia are checking the increase of wealth. Thus in Australia many coal mines have ceased working, because the wages of white men are so high that the mines could only be worked at a loss, and the mine owners are not allowed to import Chinese labourers.

Whether Australia and America are justified in acting against the laws of political economy by excluding Chinese labour, or in other words, whether its introduction would be more injurious than its admission, is a question for Australia and America to decide. If they decide unwisely they will be losers.

High wages
do not always
mean dear
work.

In skilled labour, less even than in unskilled labour, do high wages mean dear work? Gradually the labour of the world is more and more being done by machinery, that is, by skill and intelligence, and less and less by brute strength. Wages for skilled labour must, at a minimum, be enough not only to maintain the labourer and his infant family in life, they must also be sufficient to give him the necessary education, leisure for thought, &c., to develop his skill to the required point. Take a cotton mill for instance; it is far wiser to pay highly for skilled workmen, who will not damage the machinery, who can work many spindles and can work them quickly, than to employ unskilled workmen at far less wages. By skilled labour the machinery is kept in constant use; the buildings can be smaller and less expensive in proportion to the work done if skilled labour is employed. But if the workmen demand higher wages than their work is worth, they will impoverish their country and themselves. The labour will be carried on in other countries. Thus if the English cotton spinners are demanding too high wages, the manufacture of cotton textiles will be carried on in China, Japan, and other countries and not in England, and the English cotton spinners will be thrown out of employ. Certain

industries have already moved from England, on account of high wages, to Italy, where wages are lower. If we lived in an ideal world, where everybody was guided by an enlightened view of his own interests, it would be better for the question of wages to be settled between the employer and the workmen. The employer would find it to his interest to pay the workmen fair wages, and the workmen would find it to their interests not to ask more than fair wages. There would only remain the difficult task of finding out what are fair wages. As the world exists we are confronted with three facts—the avarice of employers, the greed of the employed, and the ignorance of both. All three have checked the increase of the wealth of nations. In England employers have sometimes endeavoured to take advantage of the necessitous condition of the workmen and have inaugurated what are called “*lock outs*,” that is, they have combined to refuse workmen fair wages, and have refused to employ anyone unless he would work on the terms the employer dictated. On the other hand, when orders have been brisk, the workmen have sometimes combined in what is called a “*strike*,” that is, they have refused to work at all, unless paid exorbitant wages. During these periods of struggle—*wars between labour and capital*, as they are called—machinery, skill, and strength are idle to the detriment of the nation. Workmen, instead of peaceably working and increasing the wealth of the nation, take to rioting and destroying it.

Lock outs and strikes.

It is very desirable there should be some mode of ascertaining what are fair wages, and of inducing the employers to pay and the employed to accept such wages. These disputes are often submitted to arbitration; sometimes the employers and employed will not agree as to who are to be arbitrators, or refuse to abide by the *arbitrators'* award. Some people advocate the establishment of *boards of conciliation* by the Government, whose decision should be final; others advocate the division of the profits of any concern among those who supply the money and those who supply the labour.

At the present moment high wages are being kept up in

England in most trades by *trades unions*, all the members of which refuse to work except on terms laid down by the unions. This is especially the case in the building trades, and the workmen in these trades have so much power that they compel municipalities and public institutions only to employ union men. This works detrimentally to the wealth of England in four ways. In the first place it greatly increases the cost of building, and therefore of rents, and so far diminishes the value of money. 2nd. Owing to the cost of building people do not build so large houses as they otherwise would, so there is less employment given by private individuals to bricklayers. 3rd. To make up for this the unions have put pressure on municipalities to execute greater public works than are required, such as town halls, libraries, schools, workhouses. 4th. Attracted by the high wages ruling in towns the country folk flock from the country into the towns, so that in many parts of the country there are not enough men left to till the ground, and in the towns themselves there are many more men than can find work to do. Some cannot find any work at all, and increase the numbers of criminals and paupers. Others only get occasional work. To meet this state of things it is desirable to do in England what is being done in Ireland, that is, aid the peasantry to become proprietors of land. Another step is letting small plots of garden land close to the towns to the town artisans at low rents, so that they can utilise their spare time in growing vegetables. Such plots of land are called *allotments*. Recent laws have facilitated the purchase of land to let out in allotments, and there are now in England some 700,000 of these allotments, which increase the wealth of England by enabling our artisans to engage in work productive of wealth in their leisure hours, and by inducing habits of temperance, frugality, and industry.

Salaries.

In the higher skilled labour, such as that of doctors, lawyers, judges, statesmen, &c., the salaries must be higher than the wages of workmen, because the cost of production is greater, that is to say, more time and money has to be spent on

educating men for these professions, and because also there are fewer men capable of developing the requisite skill.

In England the salaries of lawyers and judges are very high ; the consequence is a great many men study law ; only a very few can make a good living out of the profession. The same is the case to a lesser degree with regard to doctors, managers of companies, and of manufactures, superintendents of shipbuilding, &c. "These persons should receive high salaries, not only because the education for their profession is long and expensive, and the men possessing the requisite talents are rare, but also because they have facilities for dishonesty, and it is wise to minimise the temptation.

As a rule public servants, such as ministers, consuls, military and naval officers, are, considering their expenses and the expenses of their education, paid less than lawyers, doctors, merchants, managers of manufactures of equal talent. The reason for this is that in England public servants are much respected, and many men are willing to forego hopes of wealth in order to be respected, or in other words, where a profession is very agreeable, less salary need be paid for an equal amount of efficiency than when the occupation is disagreeable. The occupation of undertaker is very lucrative, because the occupation is disagreeable ; on the other hand, the occupation of night-soil men, though disagreeable, is badly paid, because it requires no skill and can be engaged in by people too stupid to do anything else. The occupation of domestic servant in England is higher paid than that of shop assistant, because English people are independent and like to have some hours of the day when they feel themselves their own masters. A successful singer, actor, painter, or sculptor in England, obtains high pay, because there are very few persons who have the talent to please the public, and because there are many rich people in England who are willing to pay high prices to hear a good singer, see a good actor, and purchase good pictures and statues.

If the employment is permanent and unremitting the wages

or salary will be lower than when the occupation is occasional and precarious, that is, supposing equal skill; thus auditor's fees are higher than the pay of an accountant permanently employed.

The paying fair salaries and wages enriches a nation, as it induces people to cultivate their talents and put forth their full strength. The paying inadequate wages and salaries impoverishes a nation, as it not only prevents people cultivating their talents and using their energy, but it also creates temptations to dishonesty. Of all things idleness and dishonesty are the most destructive of the wealth of nations.

Fares and
freights.

As to fares and freights, Governments and municipalities have more interfered between borrower and lender in them than in any other loans. This has been done on various grounds. China is now starting railways, and it is important that she should consider the best mode of managing these railways, so as to increase the wealth of the country. In some countries the railways are built by the Governments; in such case the Government obviously fixes fares and freights; the rate of such fares and freights should be high enough to pay the interest on the amount of money expended, the working expenses, and wear and tear. If the Government charges more than this rate it is taxing the railway travellers and customers more than the rest of the community; if it charges less it is practically giving the railway travellers, &c., a bonus for travelling, &c., for it is charging them less than it costs.

This is the case in some parts of Australia, where workmen's trains are run at a loss. This is economically wrong, and can only be justified as a temporary measure under exceptional circumstances. One of the injuries such action inflicts is that it impairs the credit of the Government. Probably that part of Australia would be able to borrow money for her railways on easier terms than it does now if the public felt sure that the money borrowed would be used for the benefit of the whole community instead of the benefit of a particular class.

In some countries there are railways built and run by private individuals, but which the State guarantees shall pay a certain interest to the shareholders. As railways develop the resources of a nation and enrich the community, it is often wise for the State to guarantee the interest to induce people to provide the necessary capital. In such cases it is the duty of the State to ensure the community deriving the greatest possible advantage from the railway, and that the shareholders do not reap an undue gain; it, therefore, often fixes the rates of fares and freights as the condition of guaranteeing the interest.

Other railways are built entirely by private enterprise, but even then railway companies have to ask the State to pass laws to compel the landowners on the route to sell their land at reasonable prices; the State giving the companies special privileges, has not only the right, but is under the duty to enact that the fares and freights charged shall be such as to confer a benefit on the community, that is, such as to increase the wealth of the nation. In most countries, even when railways are built by private enterprise, the Government enacts that a certain number of trains shall run at certain fixed fares and freights.

With regard to the transmission of letters in most countries Postage. the post office is a Government monopoly, and this has been found by experience to be advantageous. The State can carry letters cheaper and quicker than private individuals can. In most countries the post offices, after paying all expenses, make a profit. In England this profit amounts to nearly twenty million dollars a year. This is a tax on letter writers, but as it is cheerfully paid few Governments care to forego the revenue; it would be more equitable to reduce the rates of postage so as to merely pay the cost of the service. So too with telegraphs; in England the Government has taken over all the telegraph lines, and works them only to pay the expenses and not give a profit. When telegraph companies are established by private enterprise, as they have special privileges,

such as using the foreshore for their lines and putting up poles on other persons' land, they may justly be bound to conduct their business in such a way as to most benefit the community, compatible with fair interest for the shareholders; and they may justly be bound to charge the lowest rates consistent with such fair profits as to induce people to invest in them.

In most countries it has been found advisable, especially in the towns, to regulate the hire of cabs, boats, jinrickshaws, &c., and to issue licenses to the cabmen, &c. This checks theft, misconduct and extortion and saves the time of haggling. The fare fixed should be as low as is compatible with inducing a sufficient number of fit persons to engage in the trade.

It has not, in Western lands, been found as a rule desirable or necessary for the State to fix fares by steamers; the reason of this is that steamers belong to so many companies competing with each other for passengers and freights that the prices of both are kept down to a limit advantageous to the community. Should it ever happen that all the steam companies combined to charge excessive fares and freights it might become the duty of Governments to intervene as they have intervened in the case of the railways and telegraph lines, which have a practical monopoly of the locomotion or transmission of messages between certain points, and fix rates of fare and freight.

War between
capital and
labour.

I have alluded to the struggles between workmen and employers; these struggles have at times been very bitter. One of the workmen's representatives said "*capital is robbery.*" He argued that the wealth of all nations is created by labour, and that capital was the amount employers had robbed the labourers of by not giving them fair wages. There is a certain amount of truth in such statements. It is true that many men have become rich by oppressing those they employ and by not giving them fair wages; it is also true that some rich men misuse their wealth and make it a curse instead of a blessing, but the abuse of a thing does not make the use of it inexpedient. It is true the wealth of the world has been created by labour, but the labour has not been mere manual labour;

the mechanicians and thinkers who have applied steam and electricity to the purposes of locomotion and light, have done work for the increase of the wealth of the world ; and so have the students of mathematics, astronomy, chemistry, &c., who by their studies rendered it possible for there to be inventors ; and without capital it would have been impossible for the students and inventors to have devoted time and money to their studies and experiments, many of which, though ultimately rendering possible the mechanical achievements of modern days, were at the time unfertile and unprofitable.

Now let us consider what is "*capital*" and how it is produced. Capital is the proprietorship of anything that is convertible into money, and it is accumulated by frugality and self-denial, by postponing present enjoyment to have the means for future enjoyment. The parent who, instead of killing his infant child, feeds and nourishes it, is accumulating capital, which becomes the strength and labour capacity of that child when it becomes a youth. The youth when he spends his time in wholesome work, instead of impairing his health by vicious self-indulgence, is accumulating capital, namely, health and strength, from which he will derive a livelihood. The parent who exercises further self-denial, and instead of making his son earn money directly he has the strength to do so, gives him time to learn and pays a teacher to teach him, is accumulating capital in the son's knowledge. The son who exercises self-denial by devoting his time to study, instead of wasting it in amusements and idleness, is accumulating capital as surely as if he earned wages, and instead of spending them all in eating, drinking, and women, put aside a portion of them in a bank. In England certain professions can only be entered into at a certain age—a doctor, 21 ; a barrister, 23, &c. A man entering these professions has to devote all his time to study up to such ages ; during his studies he requires money for his maintenance, education, &c. The knowledge he has obtained is his capital. So too with all skill, it is obtained by self-denial on the part of the ancestor, parent, or offspring.

What is
capital ?

Allowing men to accumulate capital for the future use of themselves and their posterity is the strongest inducement to frugality and industry, and it is by them that the wealth of nations is increased. Experiments have been made of people having everything in common; such experiments have never endured. Men will not work so hard for the sake of humanity as they will for themselves and their relatives. They will not exercise self-denial and frugality so much for the good of the community as for the good of themselves and those specially dear to them.

In America and England there is a danger, it is true, of most of the wealth of those nations falling into few hands, and though the poor in America and England are better off than the poor in any other country, there are probably no countries in which there is so great inequality of wealth, consequently there is in America and England a danger of the poor envying the rich, and in their eagerness to share in the wealth they see around them, decreasing or even destroying this wealth, either by direct violence or by forcing the Governments to pass laws contrary to the teachings of economical science. China has not reached this stage; though the Chinese poor are very poor, the Chinese rich are not very rich, and there is not the same inequality of wealth as in America and England; still in China there are constant riots, robberies, and brigandage which would not occur if the people were better off. The remedy is not the doing away with capital; this has never successfully been done, but to endeavour to diffuse it more evenly in such a way as not to check individual frugality and energy.

CHAPTER VII.

Honesty.

THAT honesty increases and dishonesty diminishes the wealth of nations has been shown in previous chapters. Take the simplest form: dishonesty entails a waste of labour; if there are many thieves in a village the villagers will have to spend much of the time they might have spent in productive work in watching their crops and property, or they will have to hire watchmen, or to hire a large police force.

Honesty the
foundation
of credit.

Unless there is a certain amount of honesty there could be no trust between man and man, and the system of credit would be impossible. We have shown that the greater the honesty the better credit is given, and that nations and individuals, who have a greater reputation for honesty, can borrow money cheaper than nations and individuals who have a less reputation for honesty; it is therefore to the interest of societies and Governments to foster honesty and to discourage dishonesty. Societies can do this by visiting with social obloquy persons who are dishonest; Governments can do so by passing wise laws for the punishment of dishonesty and by establishing good means for its detection.

It has been discovered by experience that the certainty of detection and of punishment of dishonesty is far more effective than severity of punishment in putting a stop to it. It has also been discovered that too severe punishments defeat their own purpose, as they rouse the sympathy of the community for the thief, and people will not complain, or will not give evidence, or will not convict the offender. Again, it has been discovered that apportioning the severity of the punish-

Penalties for
dishonesty.

ment in proportion to the heinousness of the offence is not so effective in discouraging dishonesty as apportioning the severity according to four factors :—

- 1st. The temptation to commit the crime.
- 2nd. The ease with which the crime is committed.
- 3rd. The frequency of the crime.
- 4th. The difficulty of detection.

Acts of dishonesty to which people are tempted should be severely punished, in order that the fear of the punishment may outweigh the temptation to be dishonest. Acts of dishonesty which are easily committed should be severely punished for the same reason. Acts of dishonesty which are frequently committed should be severely punished to protect society ; and acts of dishonesty which are difficult to detect should be severely punished, in order that the fear of the severe punishment may outweigh the hope of escaping detection. *No human being has a right to inflict more pain on another than is absolutely necessary to protect himself and his property, and the persons and property of others.* Hence acts of dishonesty that are heinous in the eyes of the people, need not be severely punished. 1st. Because social obloquy punishes them. 2nd. Because they will not often be committed, and are not a danger to society. Vindictive punishment, that is, punishment according to desert, must be left to Heaven ; human tribunals, which cannot know the thoughts of the heart, nor the defects of education that led to the act of dishonesty, cannot apportion the severity of punishment in accordance with the moral obliquity ; all they can do is to award punishment in such a way as to deter people from acts of dishonesty, and the nature of the punishment should be such as to attain its object. Flogging is not an appropriate punishment for dishonesty, except in the case of very young children, because many persons will willingly endure the pain of a flogging in order to obtain money. Imprisonment, hard labour, and disgrace, such as being forced to wear clothes that only criminals wear, or being exposed in a *wooden collar*

(the cangue), are more effective deterrents against acts of dishonesty than flogging.

In all cases of punishment for dishonesty it is better, when practicable, to employ punishments that give pain to the mind rather than those which give pain to the body. In other words, *penalties should be moral rather than physical.*

A good penal code increases the wealth of a nation by checking dishonesty. The present Chinese penal code, though it has considerable merits, is defective in several respects. In the first place, it is vindictive instead of deterrent, that is, it aims more at retribution than the prevention of crime. In the second place, it imposes the penalty of flogging too much. Thirdly, it makes the severity of the punishment depend too much on the money value of the act of dishonesty. Fourthly, Chinese law looks on dishonesty only in its aspect of a wrong done to an individual, and does not take into account the subtler but deeper wrong that acts of dishonesty do to society and the nation at large. It allows the thief to escape punishment if he restores what he steals, and the dishonest person to escape if he compounds with the person defrauded; it throws the *onus* of prosecution on the person wronged, who is often too ignorant or too weak to prosecute. In Western lands the State prosecutes for many acts of dishonesty and punishes the person wronged if he does not prosecute, or if he compounds the felony. Hence in Western countries the detection and punishment of acts of dishonesty are more certain than in China. Lastly, the penal code of China is too limited, and it cannot easily be added to. With constant new inventions and new modes of conducting trade, there are constantly new forms of dishonesty which require the passing of new laws to put a stop to, and new modes of detection. When banking came into vogue, forgery of cheques and bank notes came into vogue also, and this crime had to be put a stop to. When fire insurance came into vogue, frauds of insuring houses and goods above their value, and then burning them, came into vogue also, necessitating the passing of laws inflicting severe punish-

Penal codes.

Forgery.

Arson.

Erratry.

ments of this act of dishonesty, and, in order to put a stop to it, enacting that no matter what the sum insured for was, the person whose property had been insured and destroyed by fire, could only recover the amount of loss he had actually sustained. This has had a good incidental effect, in that it makes it to the interest of the fire insurance companies that when a fire breaks out there shall be as little damage done as possible, and they therefore invest in good fire-engines and train men to put out fires, so that when a fire occurs it is extinguished as soon as possible; and the destruction of wealth by fire in Western lands, is nothing like as great in proportion to the wealth as it is in China. When ship insurance came into vogue, the fraud also came into vogue of insuring vessels and cargo above their value, and then purposely wrecking them to obtain the sum insured. To meet this dishonesty in Western lands special laws have been passed severely punishing the fraud; and agents have been appointed all over the world to enquire into cases of wreck; whenever a wreck occurs, a rigid enquiry is held as to its cause by a court consisting of naval and consular officers and disinterested shipmasters if the wreck occurs abroad, and by special courts appointed for the purpose if the wreck occurs at home. It would be well if the same law was passed with regard to ship insurance as has been passed with regard to fire insurance, namely that the insurer should only recover the actual amount of his loss, but insurance companies opposed this change of laws, as they thought if such a law was passed, fewer shipowners would insure, and those who did insure would do so for smaller amounts. In reality their opposition to the law has injured themselves; to cover themselves from cases of fraud and carelessness they have been obliged to charge higher premiums than the mere dangers of navigation would necessitate, and consequently large ship companies who have many ships, instead of insuring them with the insurance companies, find it to pay better to insure themselves. This is detrimental to the wealth of the nation in two ways:—It forces ship com-

panies to do the double business of shipping and insurance, thus checking a wholesome division of labour, and it places owners of single ships, or of a few ships, at a disadvantage, as they have either not to insure at all, or else at rates that place them at a disadvantage; and thus it checks individual energy and enterprise.

It would greatly increase the wealth of China if Chinese could insure their houses and property against fire and their ships and junks against wreck, but there cannot be fire or ship insurance until there is sufficient faith in the honesty of the persons who wish to insure, and until there are good laws punishing frauds on the insurance companies, and a good system of detecting them.

Again, as knowledge of chemistry increased so frauds of **Adulteration.** adulteration, which had always existed, would have increased if good laws had not been passed punishing such adulteration, and new measures had not been inaugurated, both to detect the frauds and to bring the guilty parties to justice, such as appointing chemical experts to examine milk, beer, and other food sold to the people and prosecuting those who dispensed adulterated food. The form of dishonesty called adulteration inflicts great loss on a nation and should be vigorously punished. The prosecution of the offence should not be left to the person wronged, as in many cases he is too weak or ignorant to prosecute; or the goods have gone through so many hands that he is unable to point out the original offender. Let us show how adulteration decreases wealth. The purchaser manifestly loses as he obtains a spurious instead of a real article. The nation of the vendor also loses. Thus the practice of certain dishonest dealers in Canton and Shanghai in watering silk, gave Chinese silk a bad name in the West and caused Chinese silk to be sold at a lower price than it otherwise would, and in smaller quantities. China thus lost both in money and occupation. The selling of "*lie tea*" in Canton, that is, mixing cactus leaves with the tea, or putting iron filings into the tea to increase its weight, did China an injury, as it gave Chinese

teas a bad name and reduced their selling price and the quantity sold. This "*lie tea*" being deleterious to health the fraud was stopped in England by the Government appointing inspectors of teas imported and by confiscating and destroying all the "LIE TEAS."

In 1879 the adulteration of cotton fabrics in England with an excessive amount of China clay did an injury to England, in that it gave a bad name to English textiles, and so reduced both the price and the quantity sold. It would be a good thing if laws were passed compelling people to sell goods for what they actually are, to have on the face of them their components and to appoint inspectors to see that the goods are correctly described. No nation, as far as I know, has done this as to all articles, but many Western nations have done so with regard to food. Of all forms of adulteration the adulteration of food is most destructive of the wealth of nations; insomuch as on pure and sufficient food the health and strength of people depend; and the primary wealth of all nations is the health and strength of their people. It is not enough to punish adulterators, it is also necessary to detect the offence and for the Government to prosecute the offender; the consumer has not the necessary knowledge to detect the fraud, nor the necessary time to prosecute. In China the majority of people live on grain, which is not easy to adulterate; as the Chinese grow wealthier they will probably adopt a more varied diet, and it will then be desirable to take measures to prevent the adulteration of food, more especially when Chinese begin to study chemistry, and will be more able to adulterate food in a manner difficult to detect. Even now large quantities of foreign food for infants are sold in China, and much of this is spurious and deleterious; it would advantage China if measures were taken to prevent the dishonesty of selling spurious, adulterated, and damaged food as good food. Adulterated liquids containing deleterious and even poisonous substances, are imported from abroad to China for sale to foreigners, especially sailors, and for mixing with the cooling

drinks sold in China to natives during the summer weather; these poisonous decoctions make people sick, and by impairing the health of the people detract from the wealth of the nation. It would be a good thing to put a stop to the sale of poisonous drinks.

Again, the Chinese penal law is defective, in that it does not mete out sufficiently severe punishment for breach of trust, and does not provide an easy and sure mode for bringing such cases before the courts. The instances in which adult relatives defraud their infant relations of inheritances are in China very common, so common, indeed, that little discredit attaches to these frauds. The family feuds and quarrels, the litigations these frauds lead to are very detrimental to the wealth of China, both as wasting labour which would otherwise be utilised in the production of wealth, and in fostering distrust of 'man in man. Still more detrimental is the habit of dishonesty that the impunity of these frauds tends to create. Good penal laws and their certain execution do good, not only in preventing frauds, but in inducing habits of honesty. When evil acts are punished by the State, disgrace attaches to the doing of them, and gradually in peoples' minds there rises a repugnance to doing them. Hence good penal laws are an important factor in increasing the wealth of nations.

Breach of trust.

Another form of dishonesty which checks the increase of wealth in a nation is breaking promises; unless there is a trust imposed in men's promises, the commerce of the world would be impossible. A contract is a written promise mutually made by two or more parties; any want of honesty in fulfilling these contracts impairs credit and injures the wealth of a country. One reason the Chinese are more successful than the Japanese as merchants, and why Westerners prefer to employ Chinese as compradores and in other positions of trust than Japanese, is that the Chinese are more honest in fulfilling their contracts. Honesty in fulfilling contracts depends on three factors:—First, the moral sentiments of the people. Secondly, good laws enacting the fulfilment of contracts. Thirdly, power of the Executive

Breach of contract.

to enforce these laws. In Japan the second factor exists; she has recently passed commercial laws based on the laws of the most enlightened nations, but the first and third factors are defective; it sometimes happens that a plaintiff gets a verdict in his favour in a Japanese court, but owing to the want of executive power, cannot get the verdict enforced, and the dishonest contractor, owing to the defect of the moral sentiments of the Japanese, does not incur social obloquy. This state of things really injures Japan more than the foreigners, the contracts with whom the Japanese do not fulfil, because now every one who makes contracts with Japanese, takes into consideration the risk of such contracts not being carried out and demands more onerous terms than he would if he trusted them. In China the second and third factors are defective. The second factor is not so important in the case of contracts as in other matters, as, though the code of China is defective, a long list of precedents has, to a great extent, supplied the defects of the code, and as far as my experience as Consul and Vice-Consul, reaching over 30 years, goes, the decisions of Chinese Courts on the subject of breach of contracts, have been in accordance with right principles. The defect of want of power to enforce these decisions has been much remedied by the state of moral sentiments in China, which attaches disgrace to a man who does not fulfil his contracts. In China the fear of disgrace is one of the strongest deterrents that could be devised; the desire to gain the esteem of one's fellows, is one of the strongest inducements to act honourably.

There is a long literature as to the best modes of enforcing the performance of contracts and promises, the leading principles of which are that all contracts should be enforced, except contracts to perform immoral or criminal actions—contracts obtained by fraud and misrepresentations, contracts injurious to the interests of society at large, contracts in restraint of lawful acts, such as marriage and trade, contracts to perform illegal acts, contracts obtained by threats and violence—“*duress*.” These last are void, because to make a true contract

it is necessary that the parties should have exercised free will.

The same principles, though not exactly the same rules, Treaties. apply to the contracts among nations, or "*treaties*," as to the contracts among individuals. In the long run a nation gains by the strict observance of its contracts, even though such observance entails temporary inconvenience. A nation that strictly observes its contracts, is trusted and given credit. When these contracts refer to loans, it is evident that a nation which does not pay the interest and principal of the loans it has contracted at the promised dates, will find difficulty in borrowing money. Treaties are more solemn documents than contracts; unlike other contracts, treaties are not void, because obtained by duress; in fact many treaties are obtained by duress; still they should be observed in order to maintain peace, and because breaches of treaty lead directly or indirectly to war.

Another form of dishonesty that checks the increase of the Shirking
work. wealth of nations, is shirking work and duty. The word "*duty*" in the English language, means that what we "*owe*" to do. A perfect honesty demands that we should devote all our strength and abilities in performing our duty thoroughly. In agriculture, the tiller of the ground who works hardest and takes most care to destroy the noxious insects that injure his crop, will become richer than the tiller of the ground who works less hard and who is less careful to do his work thoroughly. In large commercial undertakings like banks, steamer and railway companies, the company whose servants work hardest and most carefully, will be more successful than the company whose servants work less hard and less carefully. Students who read hardest, and most thoroughly master the subject of their study, will be able to get more fruit from their labours than students who work less hard and less thoroughly. Only those who have mastered mathematics and astronomy, chemistry, mechanics, mineralogy, geology, or botany, &c., will, as a rule, be able to make useful discoveries and inventions. The

Chinese are an intelligent race and are willing to work hard ; their great defect is a want of thoroughness. I have been in many countries of the world ; none I have seen have the same natural wealth as China :—1st. A good climate suitable to human energy. 2nd. A vast extent of territory with a fertile soil, capable of producing every possible kind of crop and possessing incalculable mineral wealth, gold, silver, jade, copper, mercury, tin, iron, and coal. The iron hill at Tieh-kang-shan, in Hupei, is probably the richest iron mine in the world. The coalfields reaching along the Yang-tze, for at least 800 miles, are probably the most extensive coal mines in the world. 3rd. Splendid navigable rivers stretching east and west, north and south, forming natural roads for the interchange of commodities, and also swarming with fish ; no such navigable rivers exist in other parts of the world. 4th. An extensive coast, with magnificent natural harbours, washed by a sea full of wholesome food. 5th. A frugal, industrious, and generous population, quiet and kind-hearted.

Want of
thoroughness.

The benefit that China might derive from all these advantages is checked by one fatal defect—a want of thoroughness. The Chinese are content with “nearly” doing or learning a thing. As long as it seems good they do not care whether it is really good or not. The Yellow River has been called *China's Sorrow*. A far greater sorrow is “*Cha-pu-to*,” “nearly.”

China, with a population of 250,000,000, was defeated in war by Japan with 40,000,000, because Chinese officers had not studied the art of war as thoroughly as the Japanese ; because China did not as thoroughly examine the arms and ammunition supplied to her soldiers as Japan did ; because China had not drilled her soldiers as thoroughly as the Japanese had ; because China had not been as careful to keep her warships and war stores in good order as Japan had. In the same way China, in the competition of commercial undertakings, is not so successful as other nations, because she will not take the pains to perfect her productions. Her tea is often badly fired, her silk and velvet made carelessly. For 1,000 years China has

made no useful discovery or invention, because she has not thoroughly studied the laws of nature. China's laws are defective, because the Chinese have not studied jurisprudence thoroughly. Her administration is defective from want of public spirit—that is, a thorough sense of duty—on the part of her officials. The banks, railways, mining and shipping industries, and manufactures which are now being established in China will, unless the Chinese amend in the form of honesty I call thoroughness, be failures. Loving China as I do, I sincerely hope that she will amend in this respect. I hope the reformation will be brought about by the introduction of the great undertakings mentioned above. The qualities of carefulness and thoroughness will be so valuable that persons possessing them will be highly paid and honoured, and a high price will, it is hoped, make men strive to be thorough and honest. I am the more inclined to hope this from my study of the history of my own and other Western nations. Before the introduction of great commercial undertakings a similar lack of thoroughness was to be found among Western people as is now found in China, but as these undertakings could only be carried on successfully by honesty and thoroughness on the part of the employed, and a strenuous performance of duty, those who were deficient in the quality of thoroughness, were either not employed or dismissed, while those who possessed the quality were highly paid. This caused people to respect thoroughness, and it became a habit; people without thoroughness were despised. The habit of thoroughness was also demanded in the Government services; on the display of thoroughness men's success in the public service was rendered more certain and the whole administration of such nations improved and became purer.

Closely connected with a lack of thoroughness there is an insidious form of dishonesty which checks the increase of the wealth of nations, the English word for which is “*Nepotism*.” It means unduly and unfairly favouring one's relatives, clansmen, and friends. This is a temptation to which the Chinese,

owing to their strong family affection, are particularly prone. The favouring one's relatives and friends in due proportion, is not only right morally, but also tends to increase the wealth of a nation by the inducement it gives to industry and self-denial. The question is, how are we to know what are the due bounds to this favouritism. The answer is simple: with what is our own we can do what we like; with what belongs to others we should only do what is to the best interest of the people to whom it belongs. If I have money of my own, I am quite right in giving more away to my relatives and friends than to strangers. If I have a business of my own, I am quite right in employing my relatives and friends more than strangers, even if my relatives and friends do not do the work well and the strangers would; but a different rule holds good when the business belongs to others, as a large company, for instance, of which I am a manager, or if the business be the public service of which I am a high officer. In both these cases I have only the right to give the preference to my relatives and friends over strangers when they perform the work equally as well as the strangers. If my relatives and friends cannot do this, I should either not employ them, or I should dismiss them; and in the same way in giving advancement or promotion. I should "*thoroughly*" investigate the conduct and capacity of the applicants, and be guided, not by my own feelings and affections, but by the interests of the company or the public service. The Chinese are so prone to favour their families and clans that it is a rule that no commissioned officer of the Chinese Government can serve in his own province, and now China is inaugurating great commercial undertakings; unless some check is imposed on the "*nepotism*" of the managers these undertakings will not be successful.

Goodwill.

There is one more form of honesty that enriches nations and the world, and that is, giving to every man the opportunity of deriving the full value of the work he has done. I have in the previous chapter spoken of fair wages with regard to work done and completed at the time, but there is another kind

of work, the result of which may only appear in the future. Thus when a shopkeeper has gained the confidence of his customers by a long course of fair dealing, it is to the interest of the public that he should be rewarded, in order to induce others to act likewise. In the West such reward is given, and the shopkeeper can sell the "*goodwill*" of his shop. If he grows too old to keep the shop, it is convenient to him to be able to sell the "*goodwill*" of his shop, or if he dies, and his family do not wish to carry on the business, it is a boon to them to be able to sell this "*goodwill*." In the same way a manufacturer who makes good articles gets a good reputation, and it is only honest that he should enjoy the fruits of his reputation. This is done by "*trade marks*." Any person using a "TRADE MARK" not his own is committing a fraud and stealing another man's reputation. In the West there is a system of registering *trade marks*, and anyone pirating another's *trade mark* is punished. And, as a man ought to have the fruits of his labour not only in his own country but all over the world, treaties have been made among nations mutually protecting the *trade marks* of each other's subjects. It is to the lasting honour of China that, though she has not entered into any treaties with other nations on this subject, she has always punished persons who pirate foreign *trade marks*. It would be to the advantage of China if she had some system of registering the "*trade marks*" of her own subjects and would get them protected abroad. This would encourage Chinese manufacturers to make things well, so as to get a reputation which would be valuable.

In the same way the honesty of giving the clever inventor of new things the full value of his cleverness by not allowing other persons to use or sell such new things without buying the right to do so, makes a nation rich, as it causes people to try and invent new things, in order that they may make money by selling the permission to use and sell them. The wider the area in which the inventor has the exclusive right over his inventions the greater will be the pecuniary value of the inven-

tion. Hence many nations have entered into treaties mutually protecting the inventions of the several nations' subjects. In the West any person making an invention can register it and obtain what is called a *PATENT* for it, that is, the exclusive right for a certain period of years of using his invention. The consequence of this is that not only is cleverness a source of wealth, encouraged and rewarded, but a new species of wealth is created, namely, *patent rights*. The patent rights of England are worth many millions of Taels. It would increase China's wealth if she also had patent laws encouraging Chinese to make inventions and punishing those who infringed *patent rights*.

Copyright.

Again, another form of honesty is giving the writers of books, of beautiful and useful thoughts, the composers of music, the painters of pictures, &c., the full value of the fruit of their labours; the doing so increases the wealth of nations and the wealth of the world, by encouraging persons to think deeply, to write in good style, to compose beautiful music, to paint beautiful pictures. Books, music, and pictures are wealth, for they add to the happiness of mankind. In the West laws of *copyright* have been passed punishing people who print a book without the author's permission; hence the author and his family have, for a period of years, varying in different countries, the exclusive right of printing and selling his thoughts. This right he can sell to persons who make it a business to buy *copyright*; hence authors in the West are largely rewarded. Lord Macaulay was paid £10,000 for the copyright of his "History of England." Nansen lately got £10,000 for the copyright of his account of his journey in the arctic regions. As in the case of patents, the value of *copyright* increases as the area in which it is enforced increases; hence various nations have entered into treaties, each in its own territory, to protect the *copyrights* of each other's subjects. It would be a source of wealth to China if she also had a law of *copyright*, as it would encourage Chinese to write good books. In the same way *copyright* encourages the study of music and the com-

posing of beautiful tunes. So too with regard to pictures. A painter who makes a beautiful picture can not only sell the picture, but he can also sell the right to take prints and photographs of it. *Copyright* not only enriches the musical composer and painter, it enriches the people by giving them better and more music and pictures, enables them by the study of beautiful prints and photographs to acquire good taste, and an artistic sense in making beautiful things which other people *will buy*. As is the case of books, so treaties have been entered into among nations mutually protecting in their several territories the *copyright* of each other's subjects in musical compositions and pictures. The deficiency of China's artistic education is a bar to the increase of her wealth. England has improved in many products, porcelain, for instance, owing to the increased artistic sense of Englishmen, and this increased artistic sense has been due, in a certain measure, to the increased honesty in rewarding art which is brought about by *copyright*. As in the case of *patent right*, copyright is not only a source of wealth, it is also a species of wealth. The copyrights of Englishmen are worth several million Taels.

The wealth of nations is founded in righteousness and established by equity.

CHAPTER VIII.

Co-operation.

Co-operation
in China.

THAT mutual help, in the simpler forms, is necessary for increasing wealth, is well known in China; and one reason why China, in spite of her defects, is as prosperous as she is, is due to the mutual help that exists in the household, clan, village communities, trades unions, and guilds. The admirable institution of the "*Family Temples*" in China, with their committees of management and family registers, the collection of funds which are used to help the poorer members of the family (gens), to support the widows and aged, to help educate the promising young people, and to assist the members of the family in their official careers, are extremely useful in increasing the wealth of China, but they have certain defects which impair their utility.

The mutual help given in the village community, the system of "*morrowing*"—that is, neighbours taking turns to help each other in ploughing, sowing, and reaping—has great advantages.

The Chinese Trades Unions, enabling the apprentices to be educated in the trade, in helping the sick and those out of employ, in hiring cooks, or combining to frequent certain eating houses, enabling the food to be obtained by the workmen at cheap rates, are also very good.

The system that rules on the Upper Yang-tze, of boats travelling in "*Pang*," that is, in company with other boats, and rendering each other gratuitous help when one boat gets into difficulties; the custom, too, of the various "*pangs*" helping each other, is also very good.

The guilds of dealers in special commodities, which keep

the traders in those commodities well informed of all that goes on in the trade, and which sometimes, as in the case of Chinese post offices, raise a common fund out of which to pay losses incurred, thus making a system of insurance, are good.

Very good, too, are the greater guilds, such as the Canton, Shantung, Shansi, Szechuan guilds, &c., established in the various large marts of the empire, which assist the men from their provinces who visit such marts.

Wealth-producing, also, is the system of partnerships, associated companies, &c.

But all Chinese systems of co-operation have three defects, closely connected with each other :—Firstly, they do not allow sufficient individual liberty to outsiders to enter, nor to existing members to leave, and not sufficient liberty is allowed to members while belonging to the associations. Secondly, the management of the association is often defective, and the objects aimed at by the association are not the right objects to aim at, and the means taken to obtain these objects are not always the right means. Thirdly, Chinese co-operative institutions do not go far enough ; they often stop short before the point where the advantages of co-operation would be greatest. It is, as Mencius says, as if, when water is 72 feet deep, the well were only dug to 70 feet.

Defects of
Chinese
co-operative
societies.

In Western countries there is an old fable still told to all children—the fable of the “Bundle of Sticks.” It is found in Greek books written in the time of the Chow dynasty, and is probably much more ancient than that time. I have not come across this fable in Chinese, so will tell it :—An old father was dying. He felt very anxious about his children, because they were in the habit of quarrelling with each other ; so he called them to his bedside, and gave them a bundle of fagots and told them to break it. None of them could do so. He then undid the bundle and gave them the separate fagots, which they easily broke. Then he said : “You are like these fagots. As long as you are united, none can harm you ; but if you are disunited, you will easily be broken.”

Compulsory
and voluntary
co-operation.

In the early and backward stages of society men are all forced to unite for the sake of self-protection, and existence would be impossible without co-operation. Each man is forced to give up part of his personal liberty in order to obtain the protection of his fellows. This sort of co-operation, though it is necessary in backward societies to protect wealth, does not always tend to increase it. When laws and administration are so good that each man has perfect liberty, a danger arises that each man will live selfishly and will not help others, until by education he finds that by mutual help he benefits himself, and then a man will adopt co-operation voluntarily, and voluntary co-operation is a co-operation that invariably tends to increase the wealth of nations.

The foundation of voluntary co-operation is trust in one's fellows; the foundation of trust is honesty. The greater the honesty of people, the greater will be the trust among them; and the greater the trust, the more voluntary co-operation there will be.

In ancient times, side by side with compulsory co-operation there existed voluntary co-operation, and it is not always easy to say whether such co-operation was voluntary or compulsory. But in modern times among Western nations, where individual liberty has been carried to great lengths, voluntary co-operation has also been carried to great lengths—that is, *co-operation by status has given place to co-operation by contract*.

In savage tribes, all the male members of the tribe have to be warriors and hunters, while the agricultural work has to be done by the women. This sort of co-operation is not voluntary.

In the family or tribe where members assist and aid each other, it is often difficult to say whether the co-operation is voluntary or compulsory. For instance, the custom of “*morrowing*”—that is, people of the same tribe or village community assisting each other in agriculture, by the members of one household aiding in sowing and reaping the crop on the land of another household one day, in the hopes that on

another day the assisted household will in turn help the assisting household. This "morrowing" is probably partly voluntary and partly compulsory.

Trades unions, in which workmen combine together to mutually assist each other, are sometimes involuntary—that is, workmen who will not join them are maltreated. Where the state of the law and administration do not put a stop to intimidation and constraint, such trades unions, in so far as they are involuntary, instead of increasing wealth, diminish it. But when such unions are absolutely voluntary—that is, when any man is free to join them when he wishes, and quit them when he wishes—they are voluntary, and add to the wealth of nations by diffusing knowledge, and by enabling the workmen to resist oppression and to obtain for themselves fair wages. Trades unions.

So, too, the co-operation of trading guilds, when the combination is voluntary and for proper ends, is conducive to the wealth of the country by diffusing knowledge among the members of such guilds, in stimulating demand for commodities, and in keeping up fair profits; but when such combinations are involuntary, they have injurious effects on the wealth of nations. In the first place, they are apt to exclude men of ability from the guilds, and to admit relatives and friends; they are particularly liable to be swayed by the form of dishonesty I call "*nepotism*"; they tend to establish monopolies, which are detrimental to wealth in shutting out healthy competition and in raising profits to an unfair rate, thus checking the demand for and the supply of commodities, and hence the production of wealth. Guilds.

So, too, with the institutions known as the "*Family Temples*" in China. Such institutions are very valuable in producing wealth when the managers consult the wishes and interests of all the members of the family, when they use the funds wisely to support the poor, foster education by giving exhibitions to the poor students of the family who have talent, &c.; but they are destructive of wealth when the managers do not administer the funds wisely and fairly, and Family Temples.

when they tyrannise over the members, or when they spend an undue proportion of the funds in theatricals, feasting, and religious ceremonials.

Constraint.

Co-operation free and voluntary is more productive of wealth than co-operation the result of constraint or custom. When people are allowed to choose those with whom they co-operate, and the extent to which the co-operation shall be carried, such co-operation will be more beneficial than when constraint is used. The rule that Mencius lays down, that it is better to persuade men's hearts than to constrain them, holds true in every relation, especially in economics, and in economics specially in co-operation, for two reasons: first, where there is restraint, much of the labour of the co-operative society will be wasted in restraining recalcitrant members, instead of being utilised in producing wealth; secondly, because people will always work harder when they are working voluntarily and zealously than when they are working under restraint and grudgingly; they will therefore produce more wealth. In all communities there are a certain number of vicious, and still more of ignorant, persons who must be coerced. Force, or coercion, is not a remedy; it is a necessary evil, and the objects of all societies should be to reduce the use of force or coercion to a minimum. The way to do this is twofold: to make it better worth people's while to be virtuous and wise than vicious and ignorant; secondly, to educate them. This is what Confucius meant when he said: "*When the people are numerous, enrich them; when they have been enriched, educate them.*" For if by good laws and good customs good people become rich, is not that rewarding them? And is not showing people how they may become rich educating them?

The State.

In one sense all municipalities, Governments, and kingdoms are co-operations. In these kinds of co-operation there is a certain amount of restraint and coercion that cannot be dispensed with, but it should be the object of all Governments to reduce as far as possible this restraint or coercion. This is what Mencius means when he says: "*Let penalties and punishments be light.*"

The second defect of Chinese co-operative institutions consists in the management. There is not sufficient control over the managers, who often misuse the common funds, or even embezzle them; and it is very difficult to bring them to justice, both from the absence of laws and the difficulties of enforcing them; there is still more difficulty in detecting wrong acts. People's faith and confidence in these co-operative institutions are impaired, and men do not join them as willingly, and do not extend them as far, as is desirable. The remedy Remedies. lies in three directions: first, making good laws punishing dishonest managers; secondly, having a good administration, making it easy to prosecute such persons; thirdly, having a good system of inspections. When realms were small and good kings were able personally to make tours of inspection through the realm, the people, as Mencius tells us, rejoiced when the king came round in his tours. In Western lands trades unions, friendly societies, and other co-operative societies have to publish periodical accounts of their receipts and expenditure, and in order to avoid errors and fraud, have their accounts examined by skilled disinterested auditors. Falsifying such accounts is easily detected and severely punished; hence managers find it to their interest to be honest; they also find it to their interest to be zealous and careful, for if they are lazy or careless the affairs of the co-operative society will not prosper, and this, by the system of inspection, will soon be discovered, and they will be dismissed. While if they are honest, hard-working, and careful, the people they are working for, and others too, will discover it; their own co-operative society will pay them highly, for, if it did not, other societies would be glad to bid high for their services.

Very often the objects of co-operative societies have not been good. They have often tried to raise wages and profits to unfair dimensions by preventing other people working at or learning the trade, by preventing dealers selling above a certain quantity of goods made. This last is as common as it is mischievous. It is mischievous, because it checks both supply

and demand, and deprives the makers of such articles of the means of their livelihood. It is noticeable that the ways of obtaining objectionable ends are generally in themselves objectionable—misrepresentation and intimidation supported by covert and overt acts of violence. Hence it is necessary to make laws, which, while permitting all associations for lawful purposes, shall severely punish associations for unlawful purposes, and, while giving associations for lawful purposes full liberty to pursue their ends by lawful means, shall severely punish slander and threats and still more severely acts of violence.

To gain the full benefit of co-operation it must go far enough, both in the matter for which the co-operation is employed and among the members of the co-operation; and the co-operation should be widely diffused.

Take trades unions, for instance. In China the trades unions are generally composed of men belonging to one town. The trades unions of Canton do not co-operate with the trades unions of Fatshan or Swatow, towns in the same province as Canton. Still less with the trades unions of Amoy and Foochow, which are in the adjoining province; on the contrary, the trades union of Amoy regard the trades unions of Swatow as enemies. In China different trades unions in the same town rarely co-operate. The brass makers do not assist the carpenters, &c. In the West the co-operation is carried further; while each trades union has its own managers, the managers of the various trades unions co-operate and sometimes merge together. Sometimes there is only one trades union for a particular trade throughout a whole kingdom. Sometimes throughout the whole kingdom all the trades unions of the wage-earning classes co-operate. Thus when the miners are well off, and the makers of machinery, bakers, or builders are in such distress that their own unions can't help them, the miners' unions grant aid to the other unions and *vice versâ*. There is also an international association, that is, a co-operation of the trades unions of many countries. Thus the delegates of German,

French, Russian, Italian, British, &c., trades unions meet to discuss matters affecting the interests of wage earners all over the world. They also send delegates to foreign countries to visit international exhibitions and examine new products, new machines, improved modes of manufacture there may be in foreign countries, so as to introduce them among their fellow subjects. That this mode of spreading knowledge and skill enriches wage earners, improves trades, and increases the wealth of nations, is obvious. It is true that sometimes these associations of trades unions and international unions do harm, but they only do harm when they pursue wrong objects or use wrong means. The most usual wrong object is the raising of wages to a degree more than is fair; the wrong means usually employed are misrepresentation and intimidation. The remedy does not lie in checking the co-operation, but in educating the people to see that unfairly high wages check the demand for labour and commodities, and injure the wage-earning classes by causing there to be less employment, and by making good laws to punish misrepresentation and intimidation.

The part played in the Chinese social life by the family temple, in the West is accomplished by *friendly societies*, to which any man can belong who pays the necessary subscriptions. The number of these societies is very great, and the amount and nature of the help they give their members vary considerably. Most of them support their members when sick, some grant old age pensions, some pay the burial expenses of members and of their families, &c. These friendly societies have a beneficial effect in encouraging thrift and industry; no intimidation, as far as I know, has been employed by them; at one time, however, they had a serious defect, the managers were apt to squander the funds, and even embezzle them, until a law was passed making it obligatory to publish accounts, audited by skilled disinterested accountants, who made a special study of statistics, and could see that the revenue should be adequate to make the payments promised. Here the inspection of the prince, by his agents and laws, caused men to have

**Friendly
societies.**

confidence in these friendly societies, and caused more and more people to voluntarily subscribe to them. No coercion is put upon anyone to be a member. Defaulting managers are severely punished.

**Insurance
companies.**

The Chinese system of mutual help given by boats on the upper Yang-tze, is good, but it is not carried far enough. In Western countries the co-operation is effected by means of insurance companies. The farmer, by paying a small sum, can also insure his crops against droughts, floods, and storms. The shipowner and merchant can insure their ship and cargo against loss or damage by the dangers of the sea. The owner of a house, or any other property, can insure his wealth against destruction by fire. Everyone can insure his life, that is, by paying certain sums periodically while he is alive, secure that a lump sum, or annual pension, be paid to his widow, &c.

Before any of these kinds of insurance were possible, statistics of storms, wrecks, fires, and deaths had to be made out. In order to induce people to insure, the insurance companies had to give the insurer the greatest possible advantage for the least possible money, so they had to discover what was the average damage done to crops by droughts, floods, and storms through a long succession of years and in various countries. What was the average of wrecks of and damages done to ships in various seas? What was the average duration of life in various climates? What the average expectation of life at various ages? These studies are so complicated that it requires a special education to master them. In order to have insurance companies there must be mutual trust between the companies and the policy owners, and this trust will probably not exist unless there are good laws preventing frauds on the companies. The insurance companies have to publish audited accounts, and are, in England and America, wound up unless they can show they have sufficient assets to meet their liabilities. On the other hand, attempted frauds on the companies are severely punished. What does an insurer consciously or unconsciously do? When he insures his crop against storm, his ship against

wreck, his house against fire, and his family from poverty at his death, he is co-operating and contracting with the other insurers that if his crop is damaged by storm, if his ship is wrecked, if his house is burnt, if he dies, they will contribute to indemnify him for the loss of his crop, his ship, or his house, or will provide for his family at his death if he contributes to save them from loss, &c., and he pays the premia, because it is his interest to do so. Each person pays his fair share, plus of course the wages of the actuaries, managers, clerks, &c., and the rent of the buildings required. In some companies, in order that the fair share, and no more than the fair share, shall be paid, a fixed sum is allotted as interest to the parties who advance the capital and for working expenses, and the rest of the profits are divided among the insurers *pro rata*.

It may be asked, how do these insurance companies increase the wealth of nations? They encourage thrift and industry; by decreasing risks they attract men to be farmers and shipowners, and the more men in a trade there are the more will be the competition, and the greater the competition the more men are induced to make improvements and to work hard. In life insurance the fact of knowing that after death one's family will be provided for, prevents one feeling anxiety of mind and enables one to devote all one's attention to business instead of worrying about the future of one's children. There are in the West two species of assurance, the converse of life assurance one called *Tontine*. Say I have a child. I put by a certain sum for him; if he dies I forfeit the money, if he lives he gets not only the money I gave and the interest, but a share also of the money people gave to children who died and the interest thereon. The other is called "*Terminable Annuities*," that is, a fixed sum is paid to an insurance company, and the insurance company in return grants the payee a fixed income for life.

The co-operation of merchants in the West is carried further than in China by what are called *Chambers of Commerce*. In each town in England there are *Chambers of Com-*

**Chambers of
Commerce.**

merce which look after the interests of the trade of the town, which have people whose special duty it is to find out any improvement in manufactory, any advance in chemical knowledge, any transactions abroad or at home likely to have an influence on the trade, and to let all the members know; and there is the *Associated Chambers of Commerce*, whose duty it is to find out everything with regard to commerce generally and to communicate each piece of information to the trade specially interested.

Combinations
of capitalists.

In the West, too, to meet the co-operation of the wage-earning classes, there are co-operations of capitalists or employers. Though the co-operation of capitalists use only one mode of intimidation, namely, a threat not to employ people—*lock outs*—it often pursues a wrong object, that is to say, it tries to reduce wages below the fair value. In such cases there is a struggle between the capitalists and the wage earners. Sometimes there is a *strike*, and the men refuse to work, sometimes there is a *lock out*, and the capitalists refuse to employ; more often there is a conference of the delegates of both co-operations, and fair terms are given, or the question is submitted to the arbitration of a disinterested party. These co-operations, when used for a good object, that is, to diffuse information with regard to the trade and to keep up fair profits, are beneficial. They are only mischievous when their object is to obtain unfair profits or wages. The remedy for the mischief is not putting a stop to the co-operation, but carrying it a step further and doing what is done by some of the insurance companies, that is, apportioning a fixed sum for the interest of the capital and for the salaries of the managers and dividing the profits *pro rata* among the workmen and all interested. Co-operative production has hitherto failed, because the workmen will not agree to give the managers, &c., a large enough salary to attract men of the required ability—that is, the workmen by refusing fair pay to the managers injure themselves. As education is diffused among the workmen it is hoped that they will see that it is to their interest to give

Co-operative
production.

large profits to clever managers; when this is the case, co-operative production will more and more come into practice. Several large factories already make an approach to it, by, besides paying their workmen the current rate of wages, giving them extra gratuities in prosperous years. This makes it to the interest of the workmen that the business should be prosperous, makes them work hard and be careful that the raw material shall not be wasted, nor the machinery damaged. “*Co-operative Distribution*” is largely practised in every town in England, that is, the profits in retail shops are often, after paying rent and a fixed salary to the shopkeepers, divided among the customers in the shape of cheaper goods. Shops which are managed on this principle are called *co-operative stores*.

Co-operative
distribution.

Partnerships and companies are not carried to the extent they ought to be in China, because of the absence of good laws and consequent want of mutual trust. In the West partnership and company laws are very minute, and having been made after a severe study of the principles of jurisprudence and commercial requirements, they have fostered the formation of partnerships and companies by increasing mutual trust.

Partnerships
and com-
panies.

In a previous chapter I stated that the principles of political economy were beneficial when applied to the family, village, district, province, nation, and world at large. In one sense every nation is a large co-operative society of persons united together for the common good; in it, as in other co-operative societies, coercion should be reduced to a minimum, and the nation should be, as far as practicable, a voluntary association. In olden days, when a man was born a native of a nation, he always remained so. This was called the *doctrine of indefeasible allegiance*; few or no foreigners were allowed to become members of the nation. It is very different now; almost every nation allows its subjects to renounce their nationality and allows foreigners to become members of its nation, so that now a man can choose what nation he will belong to. The same principles apply to the government of a nation as to the management of co-operative societies. The managers should

be carefully selected and fairly paid. The national accounts of receipts and expenditure should be drawn up, audited, and published. There should be stringent inspection. The nation should pursue right ends and endeavour to attain them by right methods.

**International
co-operation.**

As the wealth of a nation and of its individual members is increased by co-operation and mutual aid, so the wealth of the world and of each individual nation is increased by international co-operation and mutual aid. The wealth of the world has been increased by what is called the *Postal Union*, to which most of the nations of the world now belong, whereby letters and books can be posted in any town or village all over the nations belonging to the Union, to any town or village of any other nation belonging to the Union; not only so, but money also can be transmitted through the post offices from any village in one of the nations of the Union to any village in the other nations. In the same way there is an *Union* among most nations of the world with regard to the transmission of telegrams, protecting submarine telegraph wires, avoiding collisions at sea, an international code of maritime signals whereby ships of all nationalities can communicate with each other, for helping wrecks and ships in distress, protecting trade marks, patents, copyrights, &c., with regard to the duties and privileges of consuls, with regard to the privileges, immunities, and honours to be paid to ambassadors, &c.

In international co-operative arrangements all coercion and unfairness should be, as far as possible, avoided. Treaties are in little danger of being broken when nations join in them voluntarily; they are in less danger of being broken when the nations that join in them derive advantage from their operation. There are still many things about which there might with advantage be international co-operation, thus the adoption of an uniform system of money, weights and measures, rules as to the reward to be given for salvage at sea, &c. To obtain the full benefit of international co-operation, right ends must be pursued by right means. The right end is the good

of all the nations, especially, of course, one's own, and not an unfair profit for one; the right means are persuasion, and the diffusion of education, not menace nor force. Force should only be used as a hateful necessity to punish or restrain a nation which is wronging others. The ideal to which we should strive to attain is such a co-operation of nations that arbitration should take the place of war in the world just as the judgment of national tribunals has, in civilised nations, taken the place of clan fights; when all the nations of the world shall co-operate to put down acts of violence, cruelty, and injustice by nations, as in one nation individuals have co-operated by means of laws, police, and inspectors to put down acts of violence, cruelty, and injustice by individuals. In fact, that nations should not only recognise the truth of the Chinese saying, "*All under heaven's vault are one family*," but that they should carry out the duties that the belonging to the family of nations entails.

CHAPTER IX.

Education.

Education as
a source of
wealth.
Primitive.

THAT the first production of elementary wealth is dependent on education is an elementary truth, so obvious that it would not be necessary to state it, were it not that it leads to truths which are not so obvious. Among the most barbarous, ignorant and poor savages known in the world, a certain amount of education is necessary to preserve existence ; thus the children are taught the habits of wild animals, how to follow their tracks and kill them, how to make weapons, &c. Ascending to tribes higher in the scale of civilization, children are taught the ways and needs of cattle, the sort of pasturages which tend best to fatten them, where the best water is to be found, &c. When a nomad pastoral people settles permanently on lands and becomes agriculturists, their children have to be taught how to sow seed, how to plough, manure, and drain the land, the different natures of soil and treatment required by different grains and crops, how to rear various fruit trees. A further development occurs when men study the insect life around them and the plants not useful for food. Then various arts arise—the art of rearing silk worms, of winding the silk thread from cocoons, of spinning it into silk, of collecting honey and yellow wax from the labour of the bees, and white wax from the labour of the fire-fly. By studying plants men attained the germs of the knowledge of medicine. They found out the healing properties of rhubarb. They learnt to plant the cotton plant, to gin, clean, and card cotton, to spin its fibre into yarn, and to weave the yarn into textiles. They learnt the oil-producing qualities of the bean, and the fertilizing quality of the refuse of the bean, and they used bean-oil for light as well as food, and bean-cake

for manure. They learnt the nature of timber; they learnt what sorts of timber are best suited for building houses, and what as fuel; they learnt to utilise the fibre of the hemp and make it into coarse textile first, and finally into the beautiful grass cloths. By the study of metals men learnt to use iron for improving their weapons, their pastoral and agricultural implements; men learnt to use bronze and copper for coins, lamps, and sacrificial utensils; men learnt to use silver as money, gold for long-enduring ornamental work; they learnt the nature of water and the habits of fishes; they learnt to tame wild birds and animals, such as the cormorant and otter, and to train them to fish for them; they learnt to make nets and fish-hooks: they learnt to use water as a road; they learnt to build rafts, boats, and junks in endless varieties, fitted to the varieties of rivers and seas; they learnt to subdue horses, donkeys, mules, camels, oxen, buffaloes, yaks, &c., and to train them to be their servants, to carry them on their backs, to draw carts and carriages; they taught them to plough their fields and do other agricultural work.

In all these things education obviously and directly increased wealth; this sort of education is called *Technical Education*, and, applied to the simple matters above described, may be termed *Primitive Education*.

There is another kind of education which, though it does not directly produce wealth, does so indirectly in two ways: first, by increasing the intelligence of people; and, secondly, by giving knowledge which is utilised in improving the technical arts, and without which knowledge many of the technical arts could not have existed. This kind of education is called *General Education*. Take the art of writing; the first germs of writing were probably making pictures of an article representing that article itself. Thus the picture of a man would mean a man; of a dog, a dog; of a cow, a cow, &c. Afterwards a certain number of children were taught to read in these pictures, not only the objects depicted, but the qualities of those objects. The next step was the picture of a man represented not

General
education.

necessarily a man, but some object pronounced in the same way. This caused a division of writing: one called *Ideographic*, that is, depicting the meaning; the other *Phonetic*, that is, depicting the sound. The Chinese in their writing combine both, and in most of their written characters a clue, both to the sound and sense, is given. In the West, where writing probably began in the same way, the meaning has gone out of our characters and the sound alone remains thus:  an ox's head was turned upside down into **A**, which is now only a sound; , originally a picture of a house, became **B**, only a sound.  a mountain became **S**, only a sound. Another primitive method of writing was by tying knots in strings; another, imitating the marks made in soft ground by the claws of birds. This last, called the *cuniform* way of writing, existed in early days in China, and previously in Chaldæa during the time *Shun* was supposed to exist. Recently many books written in this writing have been discovered and translated. These books are not on paper, but on bricks. They were evidently inscribed with the characters like bird's claws on clay; the clay was burnt into brick. In China it occurred to wise men that it would save labour if instead of the picture of the whole object, a picture of part of it or a conventional form was adopted, thus for the picture of a man was substituted  or , &c. Afterwards through many stages Chinese writing was improved and took various forms—the *Tadpole character*, the *sealed character* with its endless varieties, the *printed character* and the *cursive character*—until it has reached its present perfection of beauty. The Chinese character is the most beautiful writing in the world, but it has two defects: it takes too long to write, and is very difficult to learn. It takes less time to write in English than to write in Chinese; it takes less brain power and work to learn to write in English than to learn to write in Chinese. In other words, there is less waste of labour in writing and learning English than there is in learning and writing Chinese. One point is common to both; in the education of writing, as in all education, there has been progress and advance.

Take the "*precious materials*" of learning—paper, pen, ink, the writing tablet. In all of these there has been progress and advance. With regard to the surface written on, the Chaldaean bricks have been mentioned; the Chinese are familiar with inscribing writing on rocks and stone tablets. One people used to write on brass tablets coated with wax with a *stylus*, or iron rod sharpened at the end; other nations wrote on the leaves of trees; one particular tree—the *papyrus*—was much used for this purpose in Egypt, and many books written in the time of the Hsia dynasty, on these papyrus leaves, are still extant; other nations wrote on the skins of animals until the manufacture of paper was discovered, when by the cheapness of this material, it has practically superseded all others as material for writing on, besides having other valuable uses of its own unconnected with writing. The pen, too, has improved. Various pens have been used—the *stylus*, the *reed*, the feathers of birds, innumerable kinds of metal pens, the brush composed of the hairs of various animals, &c. Ink, too, has improved from ordinary charcoal, soot mixed with water or oil, ink made of the excrescence of the oak, of nut galls to the beautiful Chinese ink, *Indian ink* as it is called in Europe, which for certain purposes is probably the best ink in the world, and which is much used by all nations.

So, too, in the education of arithmetic, at first people were so ignorant that they could only count up to five, the numbers of fingers and thumb on the hand; even now in certain savage races any number over five is expressed by the vague term "a great many." Gradually people got to the number ten by counting up the fingers and thumbs of both hands. They next got to a simple multiple of ten by adding the toes to the fingers and thumbs, and to more complex multiples of ten by adding together the fingers and toes of several men. The next step was the converse process of dividing by ten; gradually there arose the knowledge of decimals and the invention of the *abacus*. Here again we find a progress in education. And now we have said enough

Education
should be
progressive.

to show that one quality desirable in education, if it is to increase wealth is, *education should advance and be progressive*. It is often said, "Let us be content to be as wise as our fathers." Such a saying does no harm if we consider what was the quantity of our fathers' wisdom. Our fathers' wisdom consisted of two halves. The first was to learn all their fathers could teach them. The second was to improve on this knowledge and teach their children more than their fathers knew. It would be better to say: "Let us not be less wise than our fathers" and not be content with only half of their wisdom, but let us exercise both halves, that is, both learn the knowledge of the past and increase the knowledge of the future.

One defect of the Chinese educational system is, it is not sufficiently progressive. Take the simplest *technical education*, and on a subject in which Chinese particularly excel—agriculture.

Education
should be
thorough.

The Chinese have learnt certain knowledge with regard to seeds and the best seasons when to sow and reap; they have not sufficiently learnt the nature of seeds themselves. It has been discovered by study that by particular cultivation of plants the seeds can be made more fertile; hence in the West there are seed farms, or farms for producing seeds that will be most fertile. This has been carried to great perfection with regard to wheat; the consequence of this and other studies has been that a *mow* of land in the West produces twice as much wheat as a *mow* in China. The Chinese have learnt to a certain extent the principle of ploughing and drainage, but in neither case do they go deep enough. Their crops only derive nourishment from the surface soil; the richness of the soil below is not utilised. The disadvantage of surface, instead of subsoil drainage, is that a great deal of the manure expended is washed away by the rain and wasted, instead of assimilating with the soil. The Chinese have learnt a great deal about soils, what crops various soils are fitted to produce, and what manures those crops require, but they have not learnt the chemical composition of the earth nor how to make chemical

manures to suit the different soils and crops. Some of these manures are equally or more effective than bean-cake and much cheaper. In fruit and timber culture, the Chinese might increase their wealth by progressing in education. In the West there are schools specially for farming, where the pupils are taught agricultural chemistry, the best way of producing fertile seeds, the best way of rearing and grafting fruit and timber trees. In the rearing and breeding of cattle, pigs, fowls, &c., China might advance beyond the stage of education she has reached, and might by study and education improve her domestic animals. The horses in the West are bigger and stronger and swifter than the horses in China. They go quicker, carry and draw greater weights, and do more work in a given time than horses in China. They produce more wealth. The cattle in the West are bigger and stronger than the cattle in China; their flesh is more nutritious and greater in quantity; they supply more milk, and are stronger at ploughing. The Chinese might by more progressive education make their sheep produce better and more wool for making into cloths and flannels. So too with many other things; if the Chinese for instance would learn to clean and sort the feathers of their fowls, ducks, geese, &c., they would be able to sell these feathers instead of throwing them away, and would grow richer.

We see now a second quality education should possess, it should be thorough, that is, *education should teach as much of a subject as can be learnt.*

It is observable that knowledge in one subject can often be applied to improve production and increase wealth by being used in another subject. Thus the discovery of the use of metals improved hunting, agriculture, boat building, &c. It was a union of many studies that produced the silk, tea, and white wax manufactures. Often the knowledge of a fact, at first apparently merely curious, has had immense consequences in increasing the wealth of the world. Three thousand years ago a person observed that by rubbing a piece of amber till it

Should embrace wide curriculum.

became hot it attracted to it feathers and light objects, which would fly up to it; for many years the knowledge was not utilised, but deep study and observations led to the discovery of the laws of magnetism and electricity. The mariners' compass was invented by people who understood the laws of magnetism; by the compass, mariners were able to guide their ships to the haven in dark nights when they had no land marks, stars, or sun to guide them; by further study of facts, which seemed at first useless and irrelevant, the deviation of the compass was discovered and a table given for its correction. Again it was ascertained that the presence of iron or metal near a compass made the needle point wrong; by further study a plan was discovered of obviating this tendency and rendering compasses as true in iron as in wooden ships.

Men used to be frightened of lightning and thunder, and supposed they were directed by a person like a human being, only stronger and more powerful; the study of a great many facts led people to discover that lightning and thunder were caused by electricity, and electricity was closely connected with the fact of a piece of amber attracting a feather. By the study of these and other facts men invented lightning conductors, rendering lightning innocuous; by still further study they were able to make lightning, which had been a terror to their forefathers, a servant to their descendants, and now electricity carries our messages in the *telegraph*, enables us to speak to people miles away in the *telephone*, to hear the very words and voices of speakers of words said long ago in the *microphone*, to see actions that were done long ago in the *kinetograph*, to light our houses, to warn ships off rocks, to draw our carts and carriages, to propel our ships, to warm our rooms and cook our food, to ring bells when we visit our friends or call our servants.

The observation that silver was apt to get black when exposed to the air, and of the fact that looking through a convex or concave piece of glass diminished or magnified an object, with other studies, led to various discoveries and

inventions—*spectacles*, whereby the aged and people with weak sight are able to prolong their studies, giving a greater wealth of knowledge to the world; the *telescope* enabling us to see things far off; the *microscope* enabling us to see things so small as to be invisible to the naked eye; the *spectroscope*, by which we have discovered what the sun, moon, and stars are made of; *photography*, by which we can have pictures of our relations and friends, houses, scenery, &c.; the *X rays*, by which we can obtain a faithful representation of our bones while we are still living, tell where a bullet is if a man has been shot, where and what the disease is when he is in pain. The combination of the knowledge attained by the microscope with the knowledge of the human frame, and of the circulation of the blood, led to the discovery of the causes of many diseases and how to prevent them. Small-pox, once the scourge of the world, has been rendered little dangerous by vaccination. Measures can be taken against wounds and sores putrefying by the *antiseptic* treatment; laws of sanitation have been discovered and enforced in the West, the rates of mortality have diminished, life has been prolonged, the sickly have been made more healthy, the strong have been rendered stronger, the first source of human wealth, health, and strength has been increased, men have become capable of greater labour in a given time, and the time in which they have been capable of labour has been extended. In all these instances the *study of many things* has led to the increase of the wealth of nations. *Besides studying each subject as thoroughly as possible it is desirable to study as many subjects as possible.*

It is impossible for one man to study both each subject thoroughly and everything. Some should study one thing and some another, some should study the results of the studies of several others; there should be a division of labour in study as well as in production.

In a nation which entirely subsists by hunting it is essential that every man should be able to hunt. In a pastoral nation it is necessary that every man should be able to rear cattle.

Education
should be
widely
diffused.

In a purely agricultural nation that every one should be educated in farming. In nations which are wealthy enough to have many occupations, though it is not desirable that everybody should know agriculture, it is desirable that everybody should know something, that is, everybody should be educated; in other words, *it increases the wealth of a nation to widely diffuse education.*

In the world's history we have many examples of the wealth of nations being checked by education not being widely enough diffused, we have also examples of the wide diffusion of education increasing the wealth of nations. Athens, a small country, hardly as large as a Chinese "Hsien," became a great nation in the time of the Chow dynasty by the wide diffusion of education among the Athenians. On the other hand, the wealth of Egypt in the time of the three dynasties, of Chaldæa in the time of Shun, of Babylon in the time of the Hsia, of the Medes and Persians in the time of the Chow, did not reach a higher stage than it did, and ultimately perished, because learning was the monopoly of a few. That the wealth of China has developed to the stage it has, that it has lasted to the present day, that its lustre at one time was very great is largely due to the fact that education in China was at one time more widely diffused than in other countries. In modern days the wealth of China has probably not diminished, but its lustre has paled, because other nations have outstripped her in the race for wealth, and they have done so partly because education has gradually been more diffused in those countries than in China. Women, who form half the population, have in the East been neglected in respect to education; they have been given some education it is true, but not enough.

In England during the last 500 years education has been more and more widely diffused among the people, and wealth has increased *pari passu*. This increase has not been gradual, but has come in gusts; there was a gust of diffusion of education in the time of the Sung dynasty, caused by what is called the "*Revival of Learning*"; that is when the study of

the ancient classics was intensified by the discovery of certain Roman and Greek books, similar to the Revival of Learning in China in the end of the Han dynasty by the discovery of the Chinese classics. Again, there was a spurt given when printing was invented and the multiplication of books occurred, cheapening the means of learning. This occurred in England in the beginning of the Ming dynasty. Another spurt was given when there rose a division in the Christian Church between Catholics and Protestants which, though in many respects a disaster, intensified learning by making people anxious to prove by history and study that their view of religion was correct. Another spurt occurred in the beginning of the Ching dynasty called the *Revival of Religion*, when the lesson was inculcated and brought home to men's minds in England that they should repay the bounty of Heaven by saving the souls of their poorer brethren. From this date free schools were established all over England for the education of the poor.

The greatest step of all was taken in England, within my memory, in 1868, when it was enacted that all the boys and girls in the country should be taught reading, writing, and arithmetic, that any parent neglecting to have his children taught these subjects should be punished with fine and imprisonment, that no farmer or manufacturer should employ or give wages to a child who could not read and write. Towns and villages which had no schools were forced to build them and to pay for teachers to instruct the children. The effects of these laws have been most satisfactory and astonishing. Crime has diminished, the number of habitual criminals in proportion to the population has gone down one-half, and if we take young habitual criminals, two-thirds; pauperism has decreased in an equal proportion to crime. The investments of the working classes in savings banks, in co-operative societies, and other savings have quadrupled. Against this the nation has lost somewhat in the loss of production by child labour in agriculture and other arts, and in the parents being deprived of the

help of their children in household work, but this loss has been more than compensated for by the increased intelligence and skill of the population. The saving the strength of the children has increased the capital of strength in the country, just as the saving of money increases money capital.

Almost yearly, during the last 29 years, subject after subject has been added to the curriculum of compulsory education—music, drawing. The elements of political economy, of science, &c., and the mode of teaching has been improved, having two objects, enabling children to acquire the required knowledge as easily, and, therefore, as quickly as possible, and so let their labour be as soon as possible available for the farmer and manufacturer; and, secondly, increasing the intelligence of the children, so that after they leave school they shall continue their studies and advance in knowledge. These two kinds of teaching may be called *instruction* and *education*.

The scholarly Chinaman who reads this will see it is an application of the saying of Mencius, *T'ung Kung*, circulation of commodities. Learning is a commodity more precious than jade, the wisdom that makes a "princely man." *Chun-tze* is better than any *commodity*, even a "jewelled incense burner"; it is desirable that there should be a circulation, that is, wide diffusion of education.

Starting from the simplest and most obvious premises we have deduced the following conclusions:—

1. *Education must be progressive*, that is, must have in itself a capacity of advancing and becoming better.
2. *Education must teach as much about a subject as can be known or learnt.*
3. *Education must teach as many subjects as can be learnt.*
4. *Education must be as widely diffused as possible.*
5. *Education must be imparted in the easiest way possible.*

In order that there should be a supply of good education it is desirable that there should be a demand for it, and there probably, and almost positively, will be a demand for it if there is a supply of it.

To write fully on education would necessitate writing a long book. I propose only to touch on five points: 1st. What should China do to inaugurate education among the Chinese, good in the five particulars just mentioned? 2nd. How can she create a demand for the good sort of education? 3rd. How ought she test and examine her students to make sure they are deriving the fullest possible benefit from the good education? 4th. What steps are desirable with regard to the education of the body—physical education? 5th. Lastly, a high inducement to individuals, village communities, districts, &c., to advance the cause of education.

Education to be progressive must be of two kinds: it must be technical and general, it must impart the learning that exists, step by step, building up the pupil's knowledge layer by layer, stage by stage—*instructing* in short. Secondly, it should increase the powers of the child's mind by exercising them, leading them up to think—*educating*. In other words, teaching should cultivate two faculties—*memory* and *thought*. In regard to the cultivation of the memory, the Chinese system of teaching is probably the best in the world. A Chinaman is much quicker at learning by heart than an Englishman, and remembers better. This quickness to learn and retentiveness of memory is a great advantage to Chinese in obtaining wealth. In some respects, owing to this, the Chinese are the best retail dealers in the world; they are very quick, too, in attaining mechanical skill and in learning to work machinery made by others. They are very clever in attaining the knowledge that is dependent on the memory. But the Chinese system of teaching does not cultivate the power of thought, and, therefore, the Chinese do not improve on what they learn, and for many centuries have not made any useful discovery or invention. The Chinese teaching would be improved if children were made to think about the meaning of the books they learn, instead of only learning them by heart; if the candidates at examinations were encouraged to express new ideas, instead of only repeating the views of commentators, and if the study of mathematics was introduced into all Chinese schools.

Education
and instruction.

With regard to learning each subject thoroughly, it is desirable that the same accuracy that Chinese teachers demand in the written characters of their pupils were demanded in all matters. Thoroughness, not "*Cha-pu-to*," should be aimed at, the really knowing a thing, not seeming to know something about it. Any inaccurate statement should be rigidly checked. It is a good practice to make children examine an insect, a shop, or tree, or any other object, and call upon them for an accurate description of what they have seen, giving greater praise to accuracy than to grace of description or amount observed.

In regard to learning as many things as possible, Chinese teaching has hitherto been defective. Up to quite recently literary degrees in Chinese have been conferred only for knowledge in Chinese literature. The saying of Confucius: "In the West there are also sages," seems to have been lost sight of. In the West degrees are given not only for proficiency in the national literature, but also for proficiency in the language and literature of ancient and contemporary foreign nations; degrees are also given for proficiency in other knowledge, such as chemistry, zoology, entomology, botany, physiology, medicine, mathematics, metaphysics, logic, history, law, mechanics, music, painting, agriculture, political economy, &c. In order to prevent the minds of people being narrow, the graduate in one branch of knowledge has to show a moderate acquaintance with other branches of knowledge. The wisdom and learning of a myriad men is greater than the wisdom and learning of one, the wisdom and learning of a myriad nations is greater than the wisdom and learning of one. Hence every nation should encourage the study of foreign literature and foreign history. China is beginning to do so by putting questions on foreign learning in her examinations and by giving degrees to those who, in addition to proficiency in Chinese studies, have some acquaintance with foreign studies. This is a step in the right direction, and will give an impetus to the study of foreign subjects.

The next point is, what are the best ways of diffusing

education among as many people as possible? The first way is by making learning respected. This will be done if scholars are honoured and have opportunities of obtaining lucrative positions. This mode of diffusing education is carried to perfection in China, the giving the *litterati* privileges and rank, denied to men who have only the advantages of birth and wealth, and the recruiting mandarins from the body of *litterati* in China makes learning more honoured than birth and wealth. Birth is a good thing, wealth is a good thing, but learning is better. I remember when I was stationed in West Hupei coming across villages that were so poor they could not give money to the schoolmasters, so parents paid them in food, enduring the pangs of hunger to give their children education. It is this love of children and love of learning that causes foreigners to respect and admire the Chinese.

But there are other ways of diffusing education which China might adopt or extend with advantage—the establishment of schools to be supported by rates levied from municipalities, guilds, and clans, to be under the supervision of the gentry and elders, or committees of ancestral temples, or managers of guilds. In China there already exists the machinery for collecting and administering the funds requisite, the publication and distribution of pamphlets and books containing useful knowledge. Here again there are societies whose services might be utilised and extended. If benevolent people in China desiring to do a “*Hao-shih*” (work of mercy) would publish and give away books in Chinese on agriculture, silk rearing, arithmetic, chemistry, mechanics, and other useful knowledge, in addition to the moral treatises that are now distributed, the wealth of China would be increased.

Again, municipalities, heads of guilds, the local officials, &c., might establish libraries containing good collections of books accessible to students, and also circulating libraries whence the books could be lent to students to take home with them.

Scholars should be encouraged to write books by being enabled to sell them when written, and for this purpose some

law of *copyright* should be enacted, preventing the publication and sale of a book without the author's permission. Books should be multiplied in number and made cheaper by taking advantage of improved mechanical contrivances. Thus movable metal type should be substituted for wooden blocks in printing, because metal types do not wear out so quickly, and because the same type can be shifted and used for many books, and thus they save labour and cheapen the production of books. Good *press laws* should be passed encouraging the issue of good newspapers, punishing seditious, slanderous, and immoral writings, but allowing full freedom to honest criticism.

The Government, too, might educate the people by collecting and publishing statistics of trade, &c.

England has nearly 600 Consuls and Vice-Consuls established in different parts of the world, each of whom studies the condition of trade in his district and sends home every year a *Trade Report* on it. These reports are published so that our merchants and manufacturers may know the wants and wishes of foreigners. Other statistics are published, such as the increase or decrease of inhabitants in given districts, the number of births, deaths, and marriages that occur. It was by the publication of these and similar statistics that the rise of many co-operative societies, such as insurance societies, friendly societies, of which we spoke in last chapter, were rendered possible.

China should also encourage the study of special subjects. This can be done in two ways: 1st. The *endowment of original research*, that is, rewarding people who have made a special study of any subject by giving them an income, so as to enable them to devote themselves to that special subject. 2nd. The *founding chairs* to teach special subjects, that is, endowing schools and colleges which teach special subjects. There are in England special schools for medicine, law, agriculture, &c. With regard to the last, the young men educated at the English schools of agriculture have been very successful as farmers all over the world. In some branches of commerce Germans have

been more successful than Englishmen, and England rightly has devoted much time to discover the reason of this, and it has been found to be because Germany has more schools than England for giving a commercial education to her people, and because she conducts that education on a better system.

The next point is how to impart the education in a manner that will produce the greatest results with the least amount of labour to the learner. Some parts of the Chinese system of teaching the young are very good. Thus the practice of the children swaying their bodies to and fro during lessons is very good, as it prevents their being distracted from their lessons by the physical discomfort of keeping still. Very good, too, is the system of repeating the lesson in a sing-song voice, as preventing the children being distracted by the discomfort of silence, and the singing is pleasanter to do and hear than speaking. Very good, too, is the Chinese custom of inculcating moral lessons by means of simple rhymes easily remembered. The Germans have adopted all these excellences and carried them further in what is called the *Kindergarten* system (now being adopted in all Western nations). The children are not only allowed to move their bodies during lessons, but also their limbs, and that in a varied way; they are not only allowed to sing their lessons, they are given pretty tunes to sing them to; not only moral precepts are put in easy rhymes, but all possible studies, arithmetic, geography, history, &c.

Easy method
of learning.

So important is the way to teach that in many Western nations it has been found desirable to establish *Colleges of Preceptors*, that is, schools where people are taught to teach, and in Government and many other schools no person who has not a certificate from the *College of Preceptors* is employed to teach.

A nation should not only teach its people in such a way that they will improve on the learning they have received, will know each subject thoroughly, will know many subjects, will not only diffuse education widely and foster a demand for it and supply the demand, it should continually test the education in

Examina-
tions.

order to see that the people are deriving the fullest possible benefit from it. This is done by a good system of examinations.

Examinations are carried to a great length in Western nations. Each nation has its own system; all thinkers on the subject are agreed that all these systems are, as yet, in an experimental stage, that is, have defects which, it is hoped, will be remedied in the future when more is known on the subject. The object of examinations is twofold: to select the best qualified men for the work to be done and to prevent the public being deceived by quacks and pretenders, besides testing the progress made by learners. Every boy and girl in England is often examined, and after he or she has attained a certain proficiency is given a certificate, after receipt of which employers of labour are able to hire them. This takes place after about nine years' education, say from the age of four to 13, and is called *Primary Education*. At the age of 13 or so children whose parents can afford it are sent to what are called *Secondary Schools*. Many of these secondary schools have preliminary examinations, and only admit children who evince sufficient intelligence to make the examiners consider that they will probably make good use of their studies. Boys who are exceptionally clever are often admitted to the schools free of charge, and are sometimes besides given an income for food and clothes. During the time boys are at the secondary schools they are constantly examined, and if their progress is slow they are often dismissed from the school. The usual age for boys to stay at school is up to 18 or 19, but many clever boys leave before in order to qualify for some special profession. At 18 or 19, if the boys wish to continue their studies, they go to college. Here again there is a preliminary examination to pass, here again there are exhibitions for the cleverest boys, here again there are periodic examinations, which they must pass or leave the college. At college men generally stay to about the age of 23. The cleverest men are given incomes for life, so that they are under no necessity of earning their livelihood, and can devote all their time to further study. This is.

the way we select the best men for scholars and teachers. For each profession there are examinations and schools for especially educating boys for these professions. Take the medical profession, for instance: before a lad is allowed to enter the medical school attached to our hospitals he has to pass an examination in general knowledge; he usually enters a medical school at the age of 16 or 17; here again the very clever boys are given scholarships; after entering the school he devotes himself entirely to medical subjects; this study is extended over four or five years; here again he is periodically examined in medical subjects, and only if he passes all the examinations is he given a certificate and allowed to practice as a doctor. This protects the public from quackery; any one practicing without a certificate is liable to punishment. So too with chemists and druggists, lawyers, soldiers, sailors, consular officers, civil servants; they are all constantly examined. In many cases the examination is competitive; that is, awards are given to the number of successful candidates who are the highest on the list, according to the number of vacancies. The examinations have different limits of age for different services and different subjects on which men are examined. As a rule the number of subjects is great; to each subject a certain number of marks is attached; a candidate can select a certain number of subjects; if in any subject he fails to obtain a third of the marks allowed he gets no mark at all, as it is considered better to know a few things well than to have a smattering of many. After a man enters a service, he is given time to study the special duties of his post, and is again examined; if he fails to pass he has to leave the service.

This system of examination has obvious advantages. It puts a complete stop, as far as the entry into the services goes, to "*nepotism*." It is a great incentive to study to all classes. It, however, has defects; moral qualities and good temper are sometimes more valuable than learning, and though boys of notoriously bad character are excluded from the services, examinations cannot test character and temper, and though boys in very bad health are rejected, not sufficient weight is

given to health and vitality. It is also a known fact that boys develop ability at various ages; our system gives a great advantage to the precocious boys, and excludes many boys of superior abilities, but whose talents develop late. It often injures boys by making them too eager to succeed and overwork themselves. We ought, I think, to supplement our examination system by giving more posts to selection.

I do not think it would be wise for China to imitate our examination system, but I think it would be wise for her to establish schools to teach special subjects and have qualified examiners in those subjects, who should give the successful candidates certificates of competency of say medical knowledge, law, and history, foreign languages, jurisprudence, mineralogy, engineering, &c., and that these certificates should be given weight to when the Chinese officials desire to use the services of men possessing such knowledge.

Physical
education.

To increase the wealth of a country it is desirable that the inhabitants should be given a physical as well as a technical and mental education. The mind is intimately connected with the body, and though we should not neglect the education of the mind, a due attention to physical education has been found conducive to intellectual progress. During the time of the Chow dynasty the Greeks paid more attention to physical education than any other nation; they were at that time the people of the highest intellectual attainments. It was when Greece neglected the physical education that she degenerated; a learned Jew, well acquainted with Greek history, said our bodies are the temples of the Holy Spirit.

Japan for many years has been endeavouring to improve the mental education of her people; she has wisely at the same time paid great attention to their physical education.

China would increase her wealth if her literary and commercial classes would go in more for the physical work and play of the Manchus and artisan Chinese. Archery, riding, skating, swimming, walking, running, leaping, kicking the shuttlecock—all have advantages. China might also adopt some of the

Western exercises, such as boxing, fencing, single stick, bowls, billiards, tennis, &c. All these exercises have the advantage of strengthening and beautifying the body, making it healthier, prolonging life, &c. They have also the advantage of giving the young innocent pleasure and preventing their minds dwelling on vicious thoughts. Some games, such as baseball, cricket, football, hockey, &c., tend further to promote courage, endurance, self-denial and loyalty to one's fellows, which, first arising from social games, develop into habits influencing men's conduct in the more serious affairs of life.

A wise Jew, in the time of the Hsia dynasty, said that Heaven visits the sins of the forefathers to the third and fourth generations and rewards thousands in those who keep Heaven's commandments. A wise Englishman, some 40 years ago, by a profound study of plants and animals, discovered what is called the law of "*evolution*." One of the modes of the working of this law is *heredity*—seeds producing plants and seeds like the parents, animals producing offspring like the parents, human children inheriting the qualities and accomplishments of their parents. Another mode of evolution is *natural selection* or *survival of the fittest*, that is, plants and animals not in harmony with their environments tend to die out. The same law holds good with men; ignorance and wickedness are unfitness; they are inherited, and ignorant and wicked families tend to die out. One example of this is given in Maudsley's "Mind and Matter." An evil progenitor had 200 odd descendants; all were criminals, lunatics, or invalids, and in the fourth generation died without issue. There is another mode of evolution—*artificial selection*—under which by using our knowledge we can select what qualities shall be evolved. If we elect wisely, or, in the words of the ancient Jew, keep Heaven's commandments, we improve our posterity. This is a great inducement to educate ourselves so as to transmit to our children the faculty and ability for learning. The good memory of the Chinese is inherited by the race, so is the filial affection and love of learning. Some wicked families have died

Education
affects future
generations.

out. There is not left a vestige of Hsi Mên-ching, while the descendants of Confucius are still in the land honoured and revered. If we disobey Heaven's commandments we shall have stupid and vicious posterity; and if the vice and ignorance is very heinous, the race will die out. This truth not only contains a terrible warning, it contains also a bright ray of hope. Evil in its very nature is evanescent, bearing in itself the seeds of its annihilation; good is everlasting, and bears in itself the seed of everlasting improvement and progress, extending its influence indefinitely from the individual to the family, from the family to the nation, and from the nation to humanity.

The mills of Heaven grind slowly, but they grind exceeding small.

CHAPTER X.

Demand and Supply.

It is obvious that if a great many people want the same thing, and are willing and able to pay a good price for it, many people will work to produce that thing, and many of that thing will be made and supplied to the market. This is the simplest form of "*demand creating supply*."

Demand
creates
supply.

We all want more things than we have got ; various people want various things ; in most cases there are many things we want, but don't buy because we are not rich enough—we cannot afford them—but if, from any cause, these things become cheaper, we are tempted to buy them and do buy them, or if we have previously bought them, buy them in greater quantities. This is the simplest form of "*supply creating demand*."

And supply
creates
demand.

Suppose that from poverty not so many people are able to afford a thing as previously. The holder of these things will have to sell them cheaper to tempt, or enable, people to buy, and the retail dealers in such things will only give a smaller price for such things to the merchants, and the merchants will only give a smaller price to the manufacturers. If the price the merchants will give to the manufacturers is so small that the manufacturers can make no profits, the manufacturers will cease to produce these things, and the workmen who made them will be thrown out of employ, and will have to seek other means of subsistence ; in other words, *diminishing demand diminishes supply*. The same thing happens when there is a change of "*fashion*." Say one year it is the fashion to dress children in flowered chintzes ; during that year there will be an increased demand for flowered chintzes, and the prices of these

goods will go up ; the holders of large stocks and the manufacturers will make great profits, till the fashion changes. When the fashion changes the prices will go down, the holders of big stocks of flowered chintzes will lose money, the manufacturers will cease to manufacture flowered chintzes, and the workmen who made them will be thrown out of employ. The same thing happens when there is an unusually wet, cold, dry, or hot season. In an unusually wet summer, for instance, people will not want to buy so many straw hats. I remember the summer of 1878 in England was abnormally wet ; the consequence was the sale of straw hats was very small, the price of straw braid went down in Shantung, the makers of straw braid there were afraid to go on manufacturing until the accumulated stocks had been disposed of, and many working people were thrown out of employ and had to seek other modes of livelihood ; a *diminished demand diminished the supply*. It is obvious that a large demand for the commodities of a nation increases the wealth of that nation ; and that a diminished demand decreases the wealth of a nation in two ways : it lessens the price of the commodities that have been produced and are in stock, and it throws people out of employment to which they were accustomed, so that the wealth-producing capabilities of their labour is lost (while they are idle in seeking other employments), and impaired (while they are acquiring the necessary skill in other employments). The *price* of an article does not entirely depend on its *cost of production*. It depends also on two other factors—the quantity demanded and the quantity in stock to meet the demand. These two factors continually change, and this is one reason of the *fluctuations of prices*. But, *however much prices fluctuate, they cannot permanently be below the cost of production*, or else the things would cease to be produced. When one says the *cost of production* one does not mean what the things have cost to produce, but *the cost at which at the present time they can be produced*. The cost at which things can be produced is not a constant quantity ; sometimes this cost increases by war, pestilence, or

Price and
cost.

a rise in wages ; it decreases by the discovery of labour-saving machinery. When the latter is the case two things occur : First, the manufacturers by the new process make great profits, but afterwards the law of competition comes in, and the articles are sold at reduced prices ; the articles previously made by the old process, which are in stock, are also only saleable at the reduced prices, and the holders of such stock lose money ; but it is to be noticed the holders of stock are in the minority, and though they lose, they only lose the amount that the consumers of the articles gain—there is no diminution of the aggregate wealth of the community, there is a redistribution of it. Secondly, the loss of the stockholders is one loss, and then done with ; in future they buy cheaper ; the gain to the purchaser continues for ever, for, when once an improved way of manufacture has been introduced, it has a tendency to become universal, as the unimproved mode of manufacture cannot compete with the improved mode. The workers must either learn the new mode, or take to other employments ; if they are too stupid to learn the new mode, they lose their employment or have to accept lower wages.

We are now able to deduce several principles with regard to the PRICE of things. First, the *price may be above or below the worth of a thing. The worth of a thing is the cost of manufacture and of carriage to the consumer, plus a fair profit to the makers and to the wholesale and retail distributors.* A fair profit is an adequate return for the work the manufacturers and dealers do. If manufacturers and distributors obtain more than this by combination, or by way of monopoly or otherwise, the price of the thing goes up above its worth. Demanding unfair profits, like all other forms of unfairness, or of dishonesty, is detrimental to the wealth of nations ; for when unfair profits are asked and obtained, the manufacturers, merchants, and retail dealers do not gain all that is lost by the consumer ; *the increased price lessens the demand*, checks the production of wealth, and deprives the workers who make the articles of employment.

Fair profits.

What are *fair profits*? One cannot state a fixed percentage of gain as fair profits. In some things a very small percentage is fair profits, in others it requires a large percentage of gain to be fair profits. In nations where industry is free, the competition of manufacturers, merchants, and retail dealers to attract customers, will generally keep down profits to a fair scale. Fair profits on things in universal and constant demand, such as rice, meat, flour, fish, cotton textiles, &c., will be a very small percentage. There is little risk in producing them; they are soon sold, and the cost of production is quickly recovered, or in trade language the money in them is "*quickly turned over*." As regards retail dealers a small area will contain many customers.

The profit on medicines, on the other hand, in order to be fair, must be a high percentage. It is to the interest of the public that medicines should always be easily procurable at a short notice, that is, there should be a druggist's shop within easy distance from everyone's house; for many medicines there is only an occasional demand; the manufacturers, and still more the merchants, and most of all the retail dealers, have to keep large stocks in hand; many medicines go bad before they are wanted; the money in them is not quickly turned over, and the amount of customers for them in a given area is small. Hence a fair profit for the manufacturers of medicines, though a higher percentage than the profit of producers of corn and of things in universal and constant demand, is lower than the percentage of profit due to the merchant of medicines, and this again is lower than the percentage of profit fairly due to the druggist. In medicines, as in other commodities, if more than a fair profit is asked and obtained, injury is done to the community by checking the demand, and consequently lessening the supply of them and lessening the employment of making them.

Fashion and
luxuries.

The percentage of profit can fairly be high on things not universally demanded, such as elaborate machinery and luxuries. These two commodities have this in common, that the manu-

facturers, merchants, and dealers sell few of them, and therefore have a fair right to ask a higher percentage of profit than on articles of which many are sold. Luxuries again have this in common with "fashionable" things, that they are produced for the rich and not for the poor; a high percentage of profit on luxuries and fashionable things is fair for two reasons: first, few of them are sold; secondly, it is equitable that rich people should pay higher profits than poor; but, even in luxuries and fashionable things, demanding and obtaining more than fair profits is detrimental to wealth by diminishing the demand, and consequently the supply of them and the employment of the workmen who make them.

Certain moralists have denounced fashionable things and luxuries; they have confounded *use* and *abuse*. The inordinate desire of people to be fashionable and to obtain fashionable things, irrespective of price and cost, and the inordinate greediness for luxuries, irrespective of price and cost, are as destructive of the wealth of nations as they are destructive of morality and of manliness. Some rulers and legislators, only paying attention to this half of the truth, have passed *sumptuary laws* prohibiting the changes of fashion and the purchase of luxuries; such laws have not only been detrimental to wealth by depriving the makers of employment and by checking production; they have also proved detrimental to morality by making people think that there is no great harm in breaking the law.

The due desire to be fashionable is a desire implanted in the mind of man by Heaven for the good of the human race; it makes people industrious to accumulate sufficient wealth to have fashionable things; it stimulates the intelligence of workers and manufacturers to produce fashionable things; it benefits the poor who are able to obtain serviceable unfashionable articles at a cheap price. A princely person, who is wealthy, will encourage fashions and changes of fashions which give employment to the poor. When the embroidery makers of Coventry were in poverty, the Prince of Wales endeavoured

to make the wearing of embroidery fashionable by wearing a waistcoat of it. Other people followed the Prince's example, and the people of Coventry got more employment and were better able to provide for their families. Her Majesty and our Royal Princesses constantly set the fashion in certain things, in order that the makers of them may obtain a comfortable livelihood. In this, as in other matters, Her Majesty has set a good example to her subjects; the rich are right in spending a due proportion of their wealth in fashionable things so as to encourage industry.

Standard of
living.

The same rule holds good with regard to luxuries. What is a *luxury*? It is a thing better than what is considered necessary; as people advance in intelligence and skill, many things which were considered luxuries have become necessities; in other words, the *standard of living is raised*. Wooden floors, years ago, were considered luxuries in England as they are now in China; in England they are now considered necessities. Tea and sugar were once considered luxuries in England as they are now in some countries; in England they are now considered necessities. Rice in some parts of China is considered a necessary, in others a luxury. The *standard of living* varies in different epochs and in different places. A demand for luxuries, like the demand for fashionable things, makes people industrious in order to obtain the money to buy luxuries; it gives employment to the makers of those luxuries. There is a distinction between fashionable articles and luxuries; a fashionable article may be useless and ugly; a luxury is generally a thing of beauty to one of the senses, and has intrinsic merits. The demand for fashionable articles only creates a supply of NEW things, the demand for luxuries creates a supply of the BEST things. It would be an ideal state of affairs if every human being in the world had plenty of the best things that the world can now, or hereafter will be able to, produce. It is only by the demand of the rich for the best things in the world that the supply of the good things, now enjoyed even by the poor, was created. The demand for

luxuries raises the *standard of living*. Take four specific luxuries — racehorses, jewelry, costly wines, and expensive cigars. I purposely take extreme cases. For a single racehorse as much as £10,000 is sometimes given. At first it might appear that the spending of such a sum on a luxury, while there are so many poor among us, is wicked—as well as a waste of wealth; but when we examine the matter deeper we find that the high price given for racehorses creates a supply of fine horses, to produce which a great deal of study and care is devoted; the whole breed of horses has improved—carriage and omnibus and riding horses by a strain of blood, and cart and dray horses by the improved knowledge of horse breeding. The improvement of the breed of all kinds of British horses causes a demand for them abroad, and hence a trade has sprung up in breeding horses for export, so that the high prices given for racehorses really benefits the poor more than if the money were given in charity. So princely men (chun-tze) in England, like the Prince of Wales, the Duke of Devonshire, and Lord Rosebery, buy and breed racehorses, both for the sport and to improve the breed of horses and increase the wealth of their nation. In other words, they use a due proportion of their wealth in creating a demand for, and therefore a supply of, luxuries.

So, too, the high price given for jewelry encourages the production of jewelry both of the best and inferior qualities. The high prices given for the best jewelry causes people to study the laws of geology and other kindred subjects so as to enable them to find the jewels; it demands and obtains the supply of high skill in cutting and setting jewels, it gives employment to the lapidary and other workmen. In ancient days, and even now in many countries, jewels afford a safe investment, and encourage habits of thrift and self-denial. The jewelry of peasant women, the gifts of relatives or the result of savings of their own, often forms the marriage portion of the bride and the fund from whence is derived the rearing and education of the infant offspring.

So, too, with wines, cigars, &c. ; it seems at first monstrous that a man should pay £5 for a bottle of wine or half-a-crown for a cigar. On examining deeper into the matter, it is found that the high prices paid for the best wines and tobacco is a case of demand creating supply. The whole cultivation of the vine and the tobacco plant is improved, the study of agriculture is carried to a greater extent than would otherwise be the case, the qualities of the commoner sorts of wine and tobacco are improved and the cost of their production is decreased. The French peasant can get a bottle of better claret for a few sous than he could if it were not for the demand for the best claret for double the money. Here, again, the demand for luxuries gives greater employment, greater knowledge, greater skill, lessens the cost of production, cheapens articles consumed by the poor, and *raises the standard of living*.

How to foster
demand and
supply.

Demand being so great a factor in increasing the wealth of nations, what actions should be taken to foster demand? and what actions should be avoided as tending to check demand? Everything that tends to increase wealth tends to increase demand, as the more a man or nation has the more he or it is able to spend. Freedom of industry, the facilitation of the exchange of commodities, saving of labour, a good monetary system, mutual trust, wise commercial laws, honesty—all tend to increase wealth and to foster the demand for commodities, which is in itself a means of increasing wealth; in this, as in other things, the axiom holds good “To him who hath is given more abundantly.” Education, mutual help, &c., also increase demand by raising the standard of living. With regard to a good monetary system, at the present moment, 1897, the north of China is suffering from a scarcity of copper cash; the Chinese Government is now wisely making great efforts to coin good copper cash in large quantities as quickly as possible.

Another thing that increases demand is studying the tastes and wants of consumers. A shopkeeper tries to find out what his customers want and to supply such articles. It does not

make any difference whether the customers are countrymen or foreigners. The Chinese sell their silk, tea, crockery, and other articles for foreign consumption, and China would grow richer if she studied the tastes and wants of foreigners in her teas, silk, crockery, &c., more than she does. Japan does study these wants and tastes, and that is one reason why she is able to compete with China, though Japanese tea and silk are, in some respects, inferior to Chinese. There are many actions which, as they decrease demand, should be avoided, such as making articles of inferior quality, adulterating goods, &c. One of the most fatal ways of decreasing demand is the establishment of monopolies; these work detrimentally to the wealth of nations by unduly increasing profits and by taking away from the manufacturers the inducement to improve the product and lessen the cost of production.

Let us now consider how far *supply creates demand*. Some examples are obvious; it is evident there could have been no demand for steam locomotion until steamers and railways were invented. The moment the invention was made the supply of quicker locomotion created a demand for it. When steamers first ran from Hong Kong to Canton and from Shanghai to Hankow there were only a few tens of passengers a month; there are now several thousands a day. The cheapening of things increases their supply, because by cheapness more things can be suppliable to people who have only a little money. It is often said that cheapness is a bad thing, being the result of what is called *over-production*, and therefore it will be necessary to enquire first, is cheapness ever an evil? If so, when is it an evil? and when is it good? Can there be such a thing as *over-production*? and if so, what evils does it effect? As regards *cheapness*. Where *cheapness* is the effect of a decreased purchasing power of consumers it is an unmitigated evil, and tends to stop production; where cheapness is the effect of over-manufacture and over-competition, it rights itself, as by a survival of the fittest; only the clever manufacturers can still continue to work at making these things; the stupider have to

Cheapness
and over-
production.

give up manufacturing them, and to take to other professions for which they are more qualified. This brings into success the most skilful manufacturers and increases skill and cleverness. The evil wrought to the stupid is more than compensated by the gain of the community in obtaining the advantage of greater ability on the part of the manufacturers.

Where cheapness is due to a change of fashions, it only inflicts a limited evil on people who have not been prudent. As stated before, dealers in articles, the demand for which is liable to be decreased by change of fashion, should insure themselves against loss by a change of fashion by asking a high rate of profit while the fashion continues.

When cheapness is the effect of a lessened cost of production, it is a good thing on the whole, though it may inflict loss both on the holders of stocks, previously made at a greater cost of production, and still greater loss on the manufacturers who are not clever enough to at once adopt the new improved way of manufacture.

Can there be over-production? What are the causes of it? What are the evils it entails? and what are the remedies? In one sense over-production is constant and inevitable. The manufacturer has to make things for future demand, and the future no one can exactly foresee. He has to calculate what the demand will be at the time his manufactures reach the market, and to do this he has to study the amount of the articles in stock, that is, made and not yet being consumed, and many other things. An unexpected war, a bad harvest, &c., may upset all his calculations; his customers may not be able to buy so much of his goods, and this is what is often called *a depression of trade by over-production*; it would be more correct to call it *a diminished demand caused by distress*. Until the manufacturer sees a prospect of the accumulated stocks being sold off, he has to reduce his output, and his workmen do not work full time. The mutations of seasons should be considered by the manufacturer, and the only remedy seems to be

carefulness not to do a larger business than the capital at his disposal renders prudent—that is to say, to be able to bear losses during the time of depression.

Sometimes there is said to be over-production when there is an increase in the output, due to more people engaging in the trade, and competition lowering articles' prices, and lessening profits. In such cases there is not necessarily really an over-production. What really happens is a distribution of wealth; more people obtain a living, fewer people gain fortunes. The people whose gains are lessened by this state of things speak of it as over-production and ruinous competition, but, though bad for them, it is good for the community.

Supply always creates demand, but it is not always certain that it will create demand in the precise article supplied. Supposing a case—I have never known such a case in reality—of everybody having already as much as they want of a commodity, say wheat or sugar. What would be the effect of a fall in the price of wheat due to decreased cost of production? or a fall in the price of sugar due to, say, Governments giving a bounty for its production? The people who have already purchased as much wheat and sugar as they want will not buy any more wheat or sugar, but will spend the money they gain by the cheapness of wheat and sugar in other articles; in other words, the demand for other articles will be increased. What will be done with the surplus wheat and sugar? New markets will have to be found for it, or it will be wasted. Wheat, when there has been a plentiful harvest, is often wasted in China, because there are no facilities for sending it to places where it is wanted, and because, by a foolish law, its exportation to foreign countries is prohibited.

In England wealth is so evenly diffused that almost everybody has as much wheat to eat as he wants; the cheapening of the price of wheat may not create an increased demand for wheat in England. If the cheapening was very much it would, as people would use it for fattening cattle; but in Ireland and Scotland and other countries where people are poorer, when

wheat grows cheaper people buy more of it, and use wheat as food instead of potatoes, oats, rye, &c. Not only has this occurred by the cheapening of wheat, but new markets have also been found for it, or what is made of it. Thus American flour has lately become a large import into China, or, in other words, the supply of wheat in America has created a demand for wheat in China.

The cheapening of sugar to the English consumer by the bounties given on the export of sugar in Germany, France, and America, has caused many English families to eat more sugar, and it has been found that the eating of more sugar has greatly benefited the health of the consumers, and has increased their size and physical strength ; here we have a surprising instance of the benefit of cheapness. Besides the benefit conferred on the consumers, there has been an increase of knowledge ; the discovery has been made what a useful and health-giving article of food sugar is. It has also been discovered that the mixture of a certain proportion of sugar with lime makes a durable cement, which resists the corrosive action of the air and of sea-water. The cheapness of the price of sugar has caused it to be more and more used in making this good cement.

We have said that the remedy for what is called *over-production* lies in the discovery of new markets. To discover and utilise new markets three things are necessary : first, to travel ; second, to learn all we can about the conditions of foreign countries which may become purchasers of our products ; thirdly, to induce our Governments to enter into commercial treaties with the Governments of such countries, to the mutual advantage of the people of all the countries concerned, creating and facilitating the demand in the various countries for the products supplied by the various countries. Of the benefits of travelling I have spoken when referring to the freedom of industry. The benefits of studying geography and the conditions of foreign countries is an instance of the material advantages of education. The benefits of commercial treaties

is an instance of the principle of co-operation applied to nations.

I pointed out that a wet June in England impoverished the straw braid makers in Shantung, by decreasing the demand for straw braid; equally, the famine in the north of China in 1877 threw multitudes of spinners in England out of employ and impoverished them by decreasing the demand for cotton textiles in China. In old days it used to be thought that one nation gained by the misfortunes of another, and people tried to injure foreigners as enemies. The study of political economy has taught us that supply of wealth creates demand for commodities, and the richer and more prosperous other nations are, the greater will be their demand for our commodities, and the better it is for us; therefore it is wise to treat foreigners as friends, and, instead of trying to injure them, we gain in wealth by doing them all the good in our power. From the study of the law of demand and supply we are led to two important truths:—First, we are all members of the same body. As in our natural body a wound inflicted on one member makes the whole body sick, so in the body of society, in the body of the nation, in the body of the world, any injury inflicted on one member injures the whole body. In a village, if one family becomes poor, demand is decreased, to the detriment of a whole village; in a nation, if one class is impoverished, the whole nation suffers from a diminished demand; in the world, if one nation is impoverished, the whole world suffers from a diminished demand. So true is the Chinese proverb, “He who injures another, injures himself.” The converse is also true: he who benefits another, benefits himself. Secondly, wealth as well as honour is the gift of wisdom; but wisdom has to be obtained at a price greater and better than jewels and gold—it has *to be* obtained by thought and study.

Interest of
nations in the
prosperity of
other nations.

A wise man, who lived in the time of the Chow dynasty, gave a picture of what he considered an ideally wise woman. He represents her as richly and fashionably dressed, besides being endued with high moral attributes, governing her house-

hold, setting them to work in making fine needlework; in other words, she encouraged the production of wealth by demanding commodities, by spending a due proportion of her subsistence on luxuries, by educating her people, and by encouraging and organising skilled industry.

CHAPTER XI.

Producers and Consumers of Wealth.

THIS chapter will be an exposition of the saying of Mencius: *Producers of wealth in primitive societies.*
"To increase wealth the producers must be many, the consumers few."

In civilised societies men can be divided into four classes:

1. Producers; 2. Distributors; 3. Protectors; 4. Consumers of Wealth.

In savage tribes, when men live by the chase alone, there are few producers of wealth; all are consumers; the producers of wealth, among such tribes, are those who make weapons to kill, or traps to snare wild beasts; the wild beasts themselves, though wealth, are not produced by human labour.

In pastoral tribes the producers of wealth are the persons who feed and breed domestic animals, the people who make goads to drive them, whips and lassos to subdue them, nets to catch fish, ponds to keep fish in, &c. Wealth in these tribes consists of domestic animals as well as wild beasts, and, if people know how to breed birds and fishes, in birds and fishes also, and all the implements required for their rearing.

In agricultural communities land is added to man's wealth, and all the cultivated products of land are wealth, and the value of the land itself, that is, its wealth, was added to by labour. In these societies the tillers of land are the producers of wealth, as are the makers of agricultural implements, ploughs, rakes, hoes, &c., the builders of houses, carpenters, blacksmiths, miners, &c. As learning advances people weave cotton, silk, hemp, &c., into fibre; spinners, weavers, manufacturers are producers of wealth. The people who improve machinery, or modes of agriculture, are producers of wealth. As study

advances, more people who study plants and know how to use them to heal sickness, or to assuage pain, are producers of wealth. So are the students who read history and teach people to be wise, and aid the kings to make good laws and govern well. The direct producers of wealth are makers of hunting implements, cattle keepers, agriculturists, artisans, miners, architects, factory hands, machine makers, chemists, physicians, legislators, inventors, teachers, jurists, &c. If we take wealth in a large sense as any thing that increases the happiness and innocent enjoyment of mankind, we have also the producers of luxuries, such as painters, singers, actors, musicians, &c., as producers of wealth.

**Distributors
of wealth
in modern
societies.**

As modern life becomes more complicated, it is found to add to the wealth of nations to divide labour, and, instead of the producers of wealth themselves distributing and protecting it, for a certain proportion of the people to confine their attention to these labours instead of to producing wealth. Among the distributors of wealth was first the hawker, then the shop-keeper, then the merchant, then the capitalist and promoter of companies. Among the distributors of wealth are the porters, carmen, railway servants, boatmen, sailors, &c. So intimately connected are the production and distribution of wealth that persons who make the machinery by which wealth is distributed are rightly considered producers of wealth. Thus the makers of carrying poles, baskets, rope, boats, ships, locomotives, roads, canals, &c., are all producers of wealth.

**Protectors of
wealth.**

Soldiers, policemen, lawyers, judges, mandarins, kings, and governors of the people are the protectors of wealth. The connection between the protection and the production of wealth is not as close as the connection between production and distribution. The work employed in making protective machinery, though inevitable, is not productive of wealth; such is the manufacture of arms, fortresses, ships of war, guns, rifles, &c.

**Consumers
of wealth.**

Lastly there comes the class of persons who only consume wealth, who neither produce, distribute, nor protect it. These

persons may be divided into three heads: 1. The vicious and wicked, such as thieves, robbers, pirates; 2. The vicious and idle, such as the rich men who live on their money and neither work nor study, but only think of enjoying themselves; 3. The virtuous and idle who retire from the world and do no work, such as the ascetics, of whom examples may be found in the anchorites of the West, and some of the Buddhist priests in China.

Infant children are sometimes called consumers and non-producers. They are not really so; they are the future producers of wealth, and what they consume during infancy will be repaid to the world in the productive labour of their maturity.

As Mencius says, anything that tends to decrease the number of unproductive consumers, and to increase the number of producers and distributors, increases the wealth of nations. If thieves and robbers diminish, a corresponding number of persons, now employed as watchmen, police, and soldiers in the unproductive labour of protecting wealth, would be set free to join the number of producers.

Another thing is obvious: there should be a due proportion among the various producers of wealth for the needs of the nation. If all are students, who will tend the cattle, plough the fields, or make machines? The needs of nations are constantly changing; what should be done so as always to have a due proportion of the producers of the various kinds of wealth requisite for the prosperity of the nation? How can one ensure that there shall be sufficient distributors and not too many? How can one ensure that there shall be sufficient *protectors* and not too many? If a nation has too few police, she will suffer from thieves and robbers; if she has too few soldiers, she will suffer from the aggression of foreign nations; if she has too many police, or judges, or too many soldiers, she is incurring an unnecessary waste, both in the cost of maintaining the police, judges, and soldiers, and also in unnecessarily preventing them from being producers of wealth.

Should be
due proportion
among
producers, &c.

How can one ensure that men shall engage in the occupation for which they have most capacity? That those who have the best capacity for agriculture shall till the ground; that those who are most skilled in mechanical employments shall be artisans; that those with the best capacity for learning chemistry shall be druggists; for the healing art, doctors; for law, legislators; for instruction, teachers; for the art of war, military officers; for commerce, traders; for governing according to the moral sentiments of the community, magistrates, &c.

Lastly, how can one ensure that the men in the various occupations shall exercise their capacity to the full, shall work as hard as they can, and shall produce as much wealth as possible with as little waste of labour as possible? A few capable and industrious agriculturists will produce more from a given area and be able to work a larger area than many incapable and lazy ones; an army of a few capable hard-working men is more efficient than a larger army of incapable and lazy men. Not only are wages saved by having few instead of many do the work, but, still more important, labour is saved, and there are more men spared from agriculture and fighting to do other work, such as make machinery, study, &c.

There is an axiom of political economy: "*The object of all productive labour is unproductive consumption.*" There never can be too much wealth in the world; everybody desires to have as much as he can, and the result of producing more wealth is that more people have good food, good clothing, good houses, good furniture, good ornaments, good education, good music, good pictures, &c. Supposing every man by his work was able to produce twice as much as he now produces, people would still work as hard as they do now, but they would have twice as much wealth to enjoy, or consume, as they have now. It is conceivable that too much of a single commodity might be produced, it is inconceivable that there should be too much of all commodities. What is done by the easier production of wealth is that the *standard of living* is raised, or, in other words, the comfort of the people is increased.

The first rule for obtaining a due proportion of workers in various occupations, and also for obtaining the most capable men to work at these occupations, and to work their hardest in these occupations, is the principle laid down by Mencius of "rewarding people for the work done and not for the intention." This paying for results, combined with the law of supply and demand, to a great extent fixes the wages of different occupations; for it is evident that when payment is given for "work done," and not for intention, skilled labour will obtain higher wages than unskilled labour, and there will be a greater demand for skilled labour than for unskilled labour, for the more skilled than for the less skilled labour. This is precisely what has happened in England and some other countries in the West; the labour of artisans of the towns is more skilled than the labour of the agriculturist in the country, and consequently the town artisan has been higher paid than the agricultural labourer, and the agricultural labourers have flocked to the towns to obtain these higher wages. This, though it has increased the wealth of the nations, has had certain bad effects: 1. It has been one of the causes that in England there are too few agriculturists as compared with mechanics; 2. The towns have been overcrowded and the country depopulated; 3. Life in the country being more healthy than life in the towns, and agricultural work than artisan work or work in factories, the health of the people has been somewhat impaired.

Case of too few agriculturists.

The remedy for the evil is, not compelling people to live in the country and engage in agriculture—as was done at one time, and still is done in certain nations—nor yet by raising the wages of agricultural labourers above "the reward for the work done," but trying to make life in towns as healthy as life in the country. This has been done in various ways by the establishment of open parks and recreation grounds, by insisting on the artisans having healthy and spacious dwellings, by insisting that the factories where he works shall be wholesome, spacious, and well ventilated, that men shall not be packed too

closely in these factories, that very small children shall not be employed at all in them, and that young people and women shall not be allowed to overwork themselves, or to labour above a certain number of hours a day, by inaugurating open air sports for the artisans and their families, by proclaiming certain days as holidays and providing cheap trains to take the artisans trips into the country, by inducing the artisans of the towns to take to agriculture as a recreation. This has been done by buying up land in the outskirts of towns and letting it out to artisans as gardens ; there are now in England some 700,000 of these gardens. Lastly, an effort might be made to enable the agricultural labourer to become the owner of the land he tills. This is being done in parts of the British empire, such as Ireland and in some of the British colonies, such as Canada. Some persons at home are thinking of the practicability of giving our agricultural labourers an inducement to stay in the country by persuading our large landowners to split up the big farms of thousands of mow into small agricultural holdings of 10 to 20 mow each and letting them to the labourers. If this could be done, and the small tenants could be encouraged to become owners by allowing them to purchase their tenements by payments stretching over a long series of years, and by lending them money at a low rate of interest to stock their tenements, not only would the number of agricultural labourers be raised to a due proportion to other labourers, but a quantity of land now out of cultivation would be tilled and the produce would increase the wealth of the country.

Case of too
many agricul-
turists.

In China, fortunately, the admirable customs and laws relative to land have caused almost every Chinaman to have an interest in agriculture ; and the proportion of agriculturists is not only amply sufficient for the requirements of the country, but is in excess of their requirements. Its sufficiency adds to the wealth of the country, not only in producing a healthy, hardy and industrious race, but also in ensuring that all, or almost all, the land in China that is cultivatable is cultivated ; every foreigner who travels in China is struck with the way the sides

of hills and mountains are made to yield produce by being dug into terraces, and with the industry of the people in cultivating every level spot in the mountains, where there is either a natural silt of soil, or where soil can be carried. Of all places I have been to, the terrace cultivation is carried to the greatest perfection in Chekiang and Shantung; the utilising small level plots in the mountains in Hupei, where the agriculturist often cultivates small patches of ground of only a few feet, in places so inaccessible that his only means of reaching them is by a long ladder. Inasmuch as there is an excess in the number of agriculturists, China suffers. Many of the Chinese peasants are living on the verge of starvation; the material needs of existence absorb all their intellect; they are unable to improve their mode of cultivating, and still more unable to obtain a good education; they are unable to save, or even provide sufficient nourishment for their children, the mortality among whom is very great; in times of flood or drought there is an appalling amount of starvation; the land is divided among so many that no man does enough work, and during a large portion of the year, when there is nothing to be done on the fields, the peasants are forced to be idle.

The remedy for this state of affairs does not lie in discouraging agriculture; on the contrary, China is quite right to encourage and honour agriculture as she does. The remedy lies in her encouraging other occupations in the same spirit as she encourages agriculture—weaving and dyeing by following Mencius' rule and not taxing the cloth as it moves from village to village or province to province; fishing, by taking such measures that the fishermen shall obtain salt at the cheapest possible rate to preserve the fish with; silk production, by educating the people to rear silkworms and by following Mencius' advice and planting mulberry trees; manufactures and mining, by good laws and the free importation of machinery; facilitating the interchange of commodities by good roads, canals, railways, &c., not checking exchange by a bad system of taxation; and by inaugurating a wise emigration

system, whereby, when the agricultural population is too dense in one place, some of it may be transferred to places where the agricultural population is too sparse.

So far from agriculture being over-encouraged in China, it could with advantage be still more encouraged by the establishment of agricultural schools, and if the authorities and gentry would learn how to improve the cultivation of various crops, and, after having learnt, would teach the people by example and precept; if some of them would start model farms, in which the best modes of agriculture and the best manures were used, so that the people might see and follow the example.

Some of the steps I have above advocated have been taken, and are being taken, by Chinese statesmen. Li Hung-chang, Chang Chi-tung, Shên Ping-cheng have made noble efforts to encourage the manufactures of China, the building of railways, steamboat navigation, &c. Other statesmen are now opening mines; after the famine in Shantung noble efforts were made to aid the surplus population of Shantung to emigrate to the sparsely populated lands of Manchuria. Authorities were appointed to parcel out vacant lands among the immigrants; not only was all land-tax remitted for a time, but the immigrants were provided gratuitously with seed and agricultural implements; in a short time prosperous and populous towns like Tung-k'ou and Sha-ho sprang up along the Yaloo, Sungaree, Amur, and Wulan rivers, where before there had only been a wilderness. The emigration system might be carried further. The surplus population of Kwang-tung and Fokien might be transplanted to vacant places in Yunan, Kwang-si, Kweichow, &c.

With regard to the encouragement of manufactures and railways, Chang Chi-tung is desirous that as far as possible the rails for Chinese railways should be made in China from native iron rather than bought from abroad. In this view I humbly concur. It is true rails made in China will cost more than rails made abroad, but the difference in price will,

in China's present condition, be a wise investment in encouraging Chinese industries and in increasing the skill and knowledge of Chinese artisans. In the long run foreigners will gain equally with Chinese: the loss of the profits of the foreign railmakers will be more than compensated by the increased wealth and purchasing power China will attain by such encouragement of her industries and by the increased skill of her artisans. Having greater purchasing power China will buy more foreign commodities.

In no land in the world is there an exactly due proportion among the producers, distributors, and protectors of wealth. In all countries there are too many mere consumers of wealth. It should be the object of all nations to try and have as due a proportion of producers and distributors as possible by encouraging every variety of production and distribution; to diminish as far as possible the numbers of the protectors of wealth by stamping out crime and by employing the most capable men and making them do as much work as they can, and to do away with the classes of people who only consume.

Each country has its excesses and deficiencies; China has too many civil mandarins and expectant mandarins and too few competent naval and military officers, doctors, engineers, jurists, chemists, mathematicians, astronomers, scientific men, and historians, &c. The reason of this is that great respect is given to the learning Chinese literature, and the literati look on the civil service as the only sphere for obtaining wealth and honour; it is right that "those who govern people should be nourished by the people"; it is right to honour learning; it is right to select the rulers of the people from learned men. But persons should be rewarded for "work done" and not for intentions; the excess in the numbers of civil mandarins in China checks China's wealth by keeping a large number of learned men, whose labour should be producing wealth, in idleness. The remedy does not lie in discouraging men entering the civil service (on the contrary, it would be well if China still more encouraged her civil service by greater honours and emoluments),

Excess of
civil officers
and want of
military
officers in
China.

but by encouraging other professions and inducing scholars to enter them, such as the military and naval services, the medical, engineering, legal, and scientific professions, and commercial occupations, by honouring and rewarding "work done" in those avocations. This can be effected by bestowing rank or literary degrees on men obtaining proficiency in these avocations and entrusting power to them.

Excess of
Yamên under-
lings.

Again, there is in China an excess of T'ingchais and Yamên runners; these men do not come from the learned class, and have little honour paid them, but are induced to join the service, because they lead lazy lives and get large emoluments and enjoy considerable power. It is very desirable to decrease the number of these men by prohibiting officials having above a certain number of attendants; the powers too of these Yamên runners should be considerably curtailed and their work considerably increased; on the other hand, their wages should be increased to place them above the temptation of "*squeezing*," which should be rigorously punished; other occupations should be found for those discarded—in manufactories, mines, police force, post offices, and other institutions which China, it is hoped, will shortly organise.

Number of
men requisite
for military
purposes.

The number of police, land and sea forces necessary for a nation depends on several factors—the wealth and ability of the nation to support them, the quantity and nature of the wealth to be protected, whether the nation has a long sea border, whether she has an extensive land frontier, whether her neighbours are peaceful and just, or warlike and aggressive. England, which is an island, does not require a large army, though she is rich enough to support one she does not do so, as it is considered by British statesmen that a small army is sufficient for her needs; on the other hand, as she has a great many colonies and numerous merchant vessels to protect, as half the food consumed in England comes over the sea from abroad a large navy is for England a matter of prime necessity. The number of men employed in the British navy is only 100,000. This, considering the adult male British subjects are nearly 100,000,000

and the enormous wealth and interests the navy protects, is an economical number to be employed as protectors of wealth. The United States which is bordered on the north by British possessions, requires and maintains but a very small army. She has, considering the extent of her sea coast and her wealth, a very small navy. She has not many merchant vessels to protect, and her whole food supply is grown at home; at the same time her coast is open to depredation by an aggressive nation with a powerful fleet, and it is quite possible that, in the near future, the United States will be moved by this consideration to strengthen her navy.

Taking the army in China, and including in it the Manchu bannermen, regular soldiers, and militiamen, the numbers are fully adequate to China's requirements for police, land and water forces, but they are not efficient. The men are not sufficiently well drilled, equipped, or organised, and the officers are not sufficiently well versed in the modern science of war. A force of one-hundredth the number of men now employed would, if it were well drilled, disciplined, and organised, commanded by capable officers, provided with proper commissariat and transport services, with a system of good railroads and transport vessels for its rapid mobilisation and concentration, be far more effective than China's present force; and the 99 per cent. would be able to be wealth producers.

No country in the world possesses better material for soldiers than China. The brave, hardy, and devoted men of Manchuria; the courageous, one may say, fierce men of Hunan; the brave, quick, and intelligent men of Canton would, if well drilled, officered, and equipped, make as good land soldiers as any in the world, while the brave fishers and junkmen of China's coast and great rivers would, if well drilled and officered, form an admirable navy. What is wanted is a selection of capable officers and a sufficient inducement to join the service. If officers only think of "profit," their subordinates will only think of profit too, and the whole military force will be disorganised. If officers think of honour and the good of

their country, their men will follow their example. To get the right kind of officers they must be rewarded for their "work done" by the esteem of their countrymen and honours from their sovereign. As long as the military profession is despised, men of capacity will not enter it. It is right that military officers should, to a certain extent, be subordinate to civil officers, but this subordination is carried in China to inordinate lengths.

With good government "in accord with the instincts of the people" few soldiers will be required to repress internal disorders. In the Straits Settlements there are only 800 troops to a population of many millions.

Priests and
nuns.

In China, though less than in some other countries, there is probably an excess of priests and nuns; the remedy is to educate the people, so that, while respecting the spirits, they may be free from ignorant and slavish superstitions.

The con-
suming class.

In China, as in all the countries of the world, there is an excess of criminals and beggars who consume wealth without producing it, and, as far as the criminals are concerned, still further diminish wealth by necessitating the employment of police and destroying the trust between man and man. What can be done to diminish the numbers of criminals and beggars? Confucius gives us the answer, "When the people are numerous, enrich them; when they have been enriched, educate them." People who can get lucrative employment are not so tempted to crime and idleness as those who can only obtain a bare subsistence. Those who are well off can exercise filial piety and nourish their aged parents; they will have leisure to study and improve their hearts. "When they are enriched, educate them." The ignorant have to be restrained from crime by punishment; when people are ignorant there must be many policemen to detect, catch, and punish thieves; when people are educated they not only obtain a good livelihood, which destroys the temptation to crime, but they acquire industrious and virtuous habits and refrain from crime, not from fear of punishment, but because doing wrong is odious to them, and

from idleness, because the "practice of what they have learnt" is, as Confucius says, "delightful" to them. In England the spread of education diminished both crime and idleness. Educate the people of one nation and the police force of that nation may be decreased; educate all the people of the world and a large part of the armies of the world could safely be disbanded; many swords could be changed into ploughshares and many spears into pruning hooks; millions now engaged in protecting wealth would be set free to produce; wars, and war's concomitants, pestilences and famines, would diminish.

May the spread of education and riches quickly come to China.

CHAPTER XII.

Taxation.

A NATION is, in one point of view, a co-operative association united together for the common good. The subscriptions a nation levies, to spend for the good of the inhabitants, are called *taxes*. As coercion should as much as possible be avoided in the collection of taxes, it is necessary to persuade people to pay them willingly; to induce people to do this there are several principles which should be borne in mind.

The canons
of taxation.

I. *There should be no taxation without representation.* That is, the people paying the taxes should have a voice in the amount of taxes to be paid, and should have full opportunity of representing how such taxes will affect them. They should also have a voice as to how the taxes should be spent.

II. *Taxes levied should be expended for the benefit of the taxpayers.* People will pay taxes more willingly when they see that they derive benefit from them.

III. *Taxes should be preferred of which the cost of collection is small.* Say a nation wants to spend 1,000,000 Taels, and two ways present themselves to collect this sum: one entailing a cost of 100,000 Taels, the other 200,000 Taels, in collecting; unless there is a strong reason to the contrary the tax that costs least to collect should be preferred, as it will press less hardly on the taxpayer.

IV. *There should be no representation without taxation.* The only persons in a country who should escape taxation should be the persons who have no representation. The poor should be taxed as well as the rich, though not to the same extent. I know of no country in the world now, and as far as I know there never has at any time been a country where the poor altogether escape taxation, but there are some philanthropists.

who hold that the poor ought to escape all taxation. The proposition would be impracticable even were it desirable, and undesirable even were it practicable. If the poor paid no taxes, or even if they did not pay their due share of taxes, they would always be urging the Government to reckless and wasteful expenditure, and these are as injurious to a nation as they are to an individual.

V. *The incidence of taxation should be equitable.* The poor should pay their fair share of the taxes and no more than their fair share. The rich should pay more than the poor, not only because they are able to afford more, but also because they derive greater benefit from the expenditure of taxes, especially that portion of the taxes spent on protecting wealth. As a matter of fact all the present systems of taxation I know of press more hardly on the poor than on the rich, and up to the present time the problem of how to make taxation press evenly on all classes has not been solved; all that as yet has been able to be done is to lighten, to a more or less degree, the burden on the poor of taxation.

VI. *Taxes on food and learning should be avoided.* Food and learning are required both by the poor and rich; a poor man requires sufficient food to keep his body in the best health, a rich man requires no more; a poor man requires as much education as will develop his intellectual power. It is, indeed, desirable that rich men should have more education than poor, but not that they should use their learning for their private benefit, but for the good of the community. A rich man requires no more salt than a poor man; if, therefore, the tax on salt is such that for a man's necessary food he pays 500 cash a year in salt tax, the poor man with 50,000 cash a year will be paying one per cent. of his income, while the rich man with 5,000,000 cash a year will only be paying one-hundredth per cent. of his income. There is a further objection to taxes on food, namely, that by increasing the price of food they prevent poor people having enough to eat and diminish the health and strength of the population.

VII. *Taxes on trade and labour are to be avoided as much as possible*, because such taxes by checking the desirable division of labour, and the free circulation of commodities, injure the sources of future wealth.

VIII. *Taxes should not be levied in excess of requirements*. It is better to leave the money "to fructify in the hands of the people" than have a surplus in the Government treasury; in the hands of the people the wealth will be fertile and produce more wealth, in the treasury it will be idle and unfertile.

IX. *Income and expenditure should balance*; that is to say, the taxes for a year should not exceed the benefit derived in a year from the taxation; when money has to be spent on great public works, or armaments, the benefits of which will last many years, the taxation to pay for them should be spread over as many years as the advantages will last. This is best done by loans redeemable in the period for which the benefit endures.

Taxes on
moral
grounds.

X. *Taxes should be only levied for revenue purposes*. To this rule there are two exceptions: 1st. When any article is bought for the sake of vicious indulgence, when large numbers of the populace are prone to consume the article in excess, it is right to put a high tax on it, irrespective of the revenue derived. In the West people are tempted to excess in spirituous liquors, in China people are tempted to excess in opium; in both the cases of spirits and opium it is right to raise a high tax, not with the view of revenue, but with a view to check and lessen the consumption. A high tax, with a good preventive service, is better than total prohibition, because the object is, not to prevent the moderate use, say at least for medicinal purposes, but to prevent the abuse, and also because total prohibition would not be in accordance with the wishes of the people, and would lead to evasions and breaches of the law. As has been said by a learned jurist, "When laws go beyond the moral sentiments of the community, law and morality are apt to perish together." (Sheldon Amos.)

Protection.

The second exception is when heavy taxation is imposed as a

temporary measure to protect nascent native industries against the competition of long established foreign industries. The wisdom, or unwisdom, of such taxation can only be judged by the result. When statesmen see that their nation possesses facilities for such industries, and their people aptitude for them, but that, owing to foreign nations being first in the field, such industries do not exist in their nation, taxes to foster native industries are not only justifiable, but laudatory, and are beneficial both to the nation that imposes them and to the world at large by producing wealth in the easiest manner. I am informed an example of this has recently occurred. The United States in order to create a domestic industry in wire nails put a heavy import tax on them. The domestic consumption of this article is very great, and led to keen competition to improve and cheapen the production; now America not only supplies its own market, but is able to sell to foreign nations cheaper and better wire nails than they are able themselves to produce, and the wealth both of the United States and the world is increased. On the other hand, if the nation does not possess facilities for the production of a commodity, and her people do not possess aptitude for producing it, then taxes raised on such articles, for any other purpose than revenue, are detrimental both to the wealth of the nation imposing them and to that of the world at large. To the nation by raising the price of the commodity, wasting labour, and diminishing demand, to the world at large by discouraging production of wealth in the places and by the persons in which and by whom it can be most easily produced.

Again, when one nation tries to destroy another nation's industry by granting a bounty on the export of a commodity, the threatened nation is amply justified in raising its import tax on such commodity, not for the sake of revenue, but for the sake of protecting her industry. Thus Germany is attempting to destroy other nation's industries in sugar producing by granting a bounty on the export of beet sugar. The United States, whose industry of beet sugar has been threatened by

To counter-
vail bounties.

this proceeding, has just passed a law surtaxing all bounty-fed sugar to the amount of the bounty. The question of the wisdom or otherwise of surtaxing bounty-fed commodities depends on whether the nations, whose industries are threatened, derive more benefit from protecting their industries or from the cheapness of the commodity. In England, though the German bounties on sugar are destroying our cane sugar industries, we think we derive a greater advantage from getting our sugar cheap than we should by protecting our industries by counter-vailing taxes and, therefore, do not surtax bounty-fed sugar.

**Other sources
of revenue.**

Besides taxes, a nation often possesses other sources of revenue—the rent and sale, for instance, of Government lands, the receipts of post offices, Government railways and telegraphs, royalties on mines, &c. In this last China possesses a rich source of revenue, which she has not yet begun to exploit.

Let us now glance at the usual modes of taxation in vogue among various nations, and show how far they conform to the canons of taxation, as far as the peculiar conditions of various nations, especially of China, render such canons applicable.

Land tax.

One of the first taxes levied is a tax on the land and its produce. The tax on land, if moderate in amount, is one of the fairest and best taxes that can be levied. Land is the gift of Heaven to mankind, and, in so far as it is not the result of individual man's labour, should be used for the benefit of all; a tax therefore on persons who obtain an exclusive use of land, that is, a payment for the good of the community, is evidently just. Landowners by the nature of things always have representation, that is, they are always able to be in touch with the Government as to their interests, both in the collection and expenditure of taxes. Landowners are the persons who derive the benefit from the expenditure of taxes. The army and navy protect them from invasion, police protect them from robbery, good roads and good canals give them a larger market for their produce. The cost of collection of land tax need only be small. The land tax, though making the poor man pay his share of taxation, does not make him pay more. In this tax the rich

man pays exactly his share of the taxes. The man with 100 mow pays 100 times the land tax a man with one mow of the same sort of land pays. The tax on land, if moderate, does not increase the price of food, nor the cost of learning; it does not decrease the demand for labour, nor check the circulation of commodities. China has been particularly fortunate in her land laws. She has never allowed private property in land to reach the length it has reached in some Western lands, and has consequently been remarkably free from agrarian troubles. Her system of classifying land for the purposes of taxation, so that the richer lands should pay more and the poorer lands less taxation, is admirable; equally admirable is her practice of diminishing and remitting the land tax in localities where there has been distress or disaster. Against the incidence of Chinese land tax not a word is to be said. China would find it more economical to collect the land tax in money instead of in rice, but this can only be done when the people are provided with a sufficient amount of the circulating medium. This China is now endeavouring to do by working hard at minting money. Unfortunately not all the land tax collected in China reaches the Government treasuries and granaries. The remedy for this lies in administration.

A tax which gives a high revenue in England, from which all the poor are exempted, is the *income tax*, that is to say, all rich people have to pay a percentage of their incomes, varying in different years, but averaging about $2\frac{1}{2}$ per cent. This tax, owing to the particular circumstances of England, fulfils well all the canons of taxation, owing to the fact that all companies in England have to publish their accounts, and that merchants, traders, and professional men have to keep account books of their receipts and expenditure; there is no difficulty in ascertaining what a man's income is. The fact that England is densely populated, that the companies and large employers send in their income tax and the income tax due from their profits and the salaries of their employés, deducting the amount so paid from the dividends and salaries, renders the

collection of income tax very easy and cheap, and it is not an unpopular tax. People with less than 4,000 dollars (Mex.) a year pay a less proportion, people with under \$1,500 a year pay no income tax at all. This tax would not be suitable for China, where it is very difficult to ascertain what a man's income is and where the number of wealthy men is few in comparison with the masses, where the expenses of collection would be very great and where the tax itself would be very unpopular.

**Tax on
houses.**

Taxes on houses and rent have certain advantages. They are easy and cheap to collect, and, if small houses are exempted, they press more heavily on the rich than on the poor, but if small houses are not exempted, they press more heavily on the poor than on the rich. Thus in England, while the richer classes spend less than one-tenth of their incomes on rent, the poorer classes sometimes spend a third of their incomes on rent, and, therefore, unless the poorer houses are exempted, the tax will press very heavily on the poor; on the other hand, if the poorer houses are exempted, it discourages the building of good houses, and is detrimental to the building trade. It is, however, a favourite mode of levying *rates* in Municipalities, from the ease of assessment and from the cheapness of collection. How far it is advisable for any nation to levy this kind of tax must depend on the social condition of that nation.

Window tax.

Taxes on windows have been abandoned by most civilised nations, because it has been found that light and free current of air are so essential to the health and well being of the community that anything that prevents people from enjoying these gifts of Heaven, is detrimental to the wealth of nations.

Poll tax.

A very burdensome and odious tax, called the "Poll Tax," was once imposed in England, that is, a fixed sum had to be paid per head for each male and female who arrived at the age of puberty: an insult to the modesty of a female child, the daughter of a blacksmith, by a tax collector, led to a serious riot and rebellion. The king wisely abolished the tax. This happened in the beginning of the Sung dynasty, and the tax has never been since imposed in England. It is an odious tax

for many reasons; it presses heavily on the poor, is difficult and expensive to collect, and has other disadvantages.

Another kind of tax, levied in England, is what is called **Legacy duties.** "Probate and Legacy Duties." The system is that when a rich man dies a certain percentage of his property goes to the State instead of all going to his heirs, legatees, and successors; the percentage increases with the value of the property; estates under £100 value are altogether exempted. The percentage also varies with the nearness or remoteness of relationship of the legatee to the deceased; thus children have to pay a lower percentage than nephews, and nephews a lower percentage than strangers to the blood. This mode of taxation, though suitable to England, where it is easy to ascertain the amount of a man's wealth, would not be suitable to China where it is not easy to do so.

Other direct taxes levied in England are taxes on dogs, taxes on horses, taxes on vendors of tobacco, spirituous liquors, &c.; all these taxes are inapplicable to China. Some of them, such as the taxes on dogs and horses and licenses on vendors of tobacco, are probably detrimental in England. It would be justifiable to raise rates on horses, as horses increase municipal expenditure by wearing out the roads. As a rule, taxes from licenses on trades are never justifiable on financial grounds; they are only justifiable when it is desired by means of them to regulate trades liable to abuses. Licenses for the sale of tobacco and other articles of food may possibly check smuggling and prevent adulterated articles being sold to the public, but these objects would probably be better attained by a rigid inspection. The licensing houses that sell spirituous liquor, and opium and pawn shops, rests on a different principle; it is desirable that retail dealers in these articles, which are so liable to be taken in excess, and that pawnbrokers who, if not careful and honest, give great facilities for theft, should be under a strong control not to tempt their customers, and no stronger deterrent can be devised than the fear of, by loss of license, being deprived of the means of livelihood, in case they

Taxes on dogs, horses, &c.

do not exercise their trade in a manner consistent with the public interest. The same principle applies to theatres and places of public entertainment. Such places are constantly tempted to attract spectators by immoral spectacles; this temptation should be counterweighed by an equally strong deterrent, and no stronger deterrent can be applied than the fear of losing their licenses.

Stamps.

In England a large revenue is derived from *stamps*, by compelling all cheques, Bills of Exchange, receipts for large amounts, written contracts, such as Powers of Attorney, Leases, Charter Parties, &c., to have stamps, issued by the Government, attached to them. Stamps are payable as probate and legacy duties, as consular and judicial fees, &c. The system works well in England. China might, with advantage, study the system with a view to its introduction in a modified form into China.

The above taxes are called "*Direct Taxes*," because they are really paid by the parties from whom they are collected. There is another kind of taxation called *Indirect Taxes*, because the burden of them does not fall on the persons from whom they are collected, but upon others. Such are maritime and inland duties, excise, &c.

Import and export duties.

The duties levied on foreign trade are of two kinds: duties on foreign imports consumed in the native country, and duties on native produce consumed in foreign countries. These duties are called *Import* and *Export Duties*. The effect of import duties is to raise the price and thus lessen the demand for foreign commodities. The people who really pay these duties are the native consumers. When import taxes are raised only for revenue purposes, they are in some countries an unavoidable necessity; the object should be to lessen the duty as much as possible: the lighter the duty the lighter will be the cost of collection, as the less will be the temptation to smuggle, and the less staff of preventive officers have to be maintained. It must be remembered that tax collectors neither produce, distribute, nor protect wealth. They are only consumers. As the labour

spent on protection of wealth is analogous to what is called “*waste*” in mechanics, the labour spent in collecting taxes is analogous to “friction” in mechanics; it is desirable to reduce this “waste” and friction to a minimum, so that as large a percentage as possible of labour should produce and distribute wealth. Again, a low import duty will often yield a higher revenue than a high import duty. If with a ten per cent. *ad valorem* duty 1,000,000 Taels worth of goods are imported, and with a 5 per cent. duty 3,000,000 Taels, 50,000 Taels a year will be gained by the revenue by the low import duty, and 150,000 Taels a year will be gained by the native consumers; the foreign makers of these goods will also gain in increased occupation, and will be able to afford to buy more native goods. Unless imports are paid for by exports they will not be imported, except as payment for money owed to the native country by the foreign country. The excess of imports over exports will represent the interest of the money lent.

Export duties are really paid by the foreign consumer; unless the foreign consumer pays for the cost of the goods plus cost of transport, plus profits, plus export duty, no one will export goods. Lowering export duty increases the foreign demand for goods, and it is often found that a low export duty will yield a larger revenue than a high export duty by creating a greater demand for the native goods abroad. Low export duties, still more no export duties, have this advantage, they give lucrative employment to the people of a nation. So well is this understood in the West that the Western nations do not levy export duties; some go so far as to pay bounties on export.

Both import and export duties check the free circulation of commodities and lessen demand and supply. In a large country with a great variety of climate and a facility for producing many commodities, they are less noxious than in a small country with not much variety of climate and with few facilities for producing commodities. The smaller the area to and from which goods are taxed in coming and going the more

will the taxes impoverish that area. On the other hand, import and export duties have this advantage over direct taxes, they are paid without coercion, no one need buy a foreign import unless he likes, and consequently he need not pay import duty. In the same way, no one is compelled to sell his goods to foreigners. When the import duties are on necessities, specially when they are on food, they press more heavily on the poor than on the rich.

Octrois and likin.

Likin and octrois are more mischievous taxes than import and export duties, as they check the free exchange of commodities in small areas, they lessen demand and supply, put a stop to industries, force the areas to produce commodities which they produce with difficulty, and do not allow them to produce what they can produce easily. The cost of collection is out of all proportion to the revenue derived; they necessitate an army of likin runners whose labour is unproductive. Again and again, in my travels through China, have I seen areas which, if they had been devoted to the production suited to them, would have been wealthy, sunk in poverty by being forced by likin to produce articles for which they are unfitted. Likin is killing the Chinese tea trade, and checking every native industry. If China would abolish likin such an enormous impetus would be given to trade that the import and export duties would, without raising them, give China a far larger revenue than she now possesses. Englishmen would consent to China's doubling the import and export duties if she would but abolish likin.

Monopolies.

The sale of monopolies is always an odious and unwise way of raising a revenue; by shutting out competition it causes laziness in production and increases the cost of commodities. Monopolies in food supplies are the most odious forms of monopoly, and a salt monopoly is probably the worst of all. A salt monopoly checks the fishing industry, deprives the poor of wholesome food and saps the health and vigour of the people. The revenue raised by the salt monopoly in China is very small in proportion to the loss it inflicts on the people—the large

army of men connected with the salt office whose labour is unproductive.

Excise duties, that is, taxes on native productions, are Excise. always financially a mistake; they are only justifiable when it is desired to check the production of a commodity like spirits, or opium, which the people are tempted to take in excess.

Raising revenue by the sale of offices and honours is always Sale of honours. a mistake. The officers who have bought their posts will recoup their outlay by "squeezing," and when literary degrees and honours are sold their value in inciting men to worthy labour is much impaired.

Raising revenue by state lotteries and licensing gambling is State lotteries. a mistake. Such increases the spirit of gambling, which is the hope of gaining wealth that has not been earned, and destroys habits of steady industry and frugality.

Taxes on luxuries, though just in theory, as throwing the Taxes on luxuries. burden of taxation on the rich, are found in practice to yield but a small revenue in proportion to the cost of collection.

The revenue derivable from Government lands can never Revenue from lands. be great in China, where most of the land is the private property of families and clans; in outlying provinces, where there is unappropriated land, the demand for it is not keen. China is wise in giving this land gratuitously to the surplus population of overcrowded provinces. There is a distinction between the revenue raised from the sale and that from the rent of Government lands. The former is capital, and should only be devoted to objects permanently benefiting the community; the latter is income, and can be spent on current expenses.

The benefit of public works, such as railways, waterworks, Public works. &c., extend over a period of years; the money necessary for their construction should be provided for by loans and not from the current receipts of the year; by this means the persons who reap the benefits pay for them. The charges for railway fares, transport of goods, and water, should be sufficient to pay the interest on the loans, the working expenses and the depreciation

Post office.

by wear and tear. They should not do more than this, otherwise the classes who use the railways or waters are being taxed for the benefit of those who do not use them; the incidence of taxation will not be even. The same principle applies to Government telegraphs, &c. Most nations derive a revenue from their post offices. Government post offices are an advantage; the work of distributing letters, parcels, books, newspapers, and small sums of money can be done cheaper, quicker, and better by a Government than by individuals. The native post offices in China have merits, but the work could be done better by the Government. Instead of abolishing the native post offices and postmen the Chinese Government should absorb them. With a cheaper and quicker distribution more letters, books, and parcels would be posted, and all the persons now engaged in post offices would be wanted for the work of distribution; this would increase trade and enrich the country. The reduction of postage often increases the postal revenue. In England the gain from the Post Office amounts to some 20,000,000 dollars (Mex.) a year. In the view of abstract theory this revenue is a tax on letter writers, and favours people who do not use the post office; on the other hand, it is a tax willingly paid, and as the rich use the post office more than the poor, it tends to redress the inequality of the incidence of taxation.

Royalties.

China has an inexhaustible source of revenue which might render the Chinese Government one of the richest Governments of the world, viz., royalties on the outputs of mines. Coal, iron, lead, silver, copper, tin, and almost all minerals exist in China in large quantities. In mines, the Government retains rights of property; they have not, as has been the case in England and Western lands, been appropriated by individuals; China could, without risk, obtain a large revenue from mines by allowing them to be worked on condition of their paying a royalty on the gross output. Mines can be more profitably worked by private enterprise than under Government management; private individuals, being paid by the result, will work

harder and more economically than Government officials. Not all mines pay; if such mines are worked by private enterprise, the Government will receive its percentage of output, whether the mines succeed or not, and will not need to advance money for prospecting and for the initial expenses; it will receive gain without the risk of loss.

CHAPTER XIII.

Administration.

Mode of
raising and
spending
taxes.

HAVING considered in the last chapter the best sort of taxes and revenue to raise, we will consider in this chapter: 1st. The best mode of raising taxes so as to prevent waste and embezzlement. 2nd. The best way of spending the taxes so that the people may derive the most benefit. Under the last head will come what are the objects for which a Government should strive. And what are the best modes of attaining such objects? How can a Government obtain the services of the best men at the cheapest rate? How can it ensure that these best men shall work their hardest for the common welfare?

Farming out
taxes.

All throughout history it has been found that farming out the revenues is an unwise measure. To the Western student, acquainted with Roman history, the evils of *farming out revenue* are well known; the taxations and oppressions of the *publicans*, or revenue farmers, the hatred with which the people regarded them, is evinced by the coupling of "publicans and sinners" which constantly occurs in the New Testament, by the speeches of Cicero, the most eloquent of Roman advocates, and by the terrible decline and fall of the old Roman Empire, which, in spite of its splendid laws and administration, was crushed out by barbarous tribes. China frequently farms out taxes, especially *likin*, and the farmers of *likin* frequently use the power given them to trade in the articles themselves, and to crush out all competition by accusing their competitors of smuggling. They purposely make the *likin* regulations so complicated that no one can understand them, and they keep these regulations secret in order to entrap people. Oppressive and evil as the *likin* is in itself, the evils are magnified by

farming it out to syndicates of speculators, whose only object is to make money out of the speculation, who have no care for the people's welfare, for the peace of the country, for the good reputation of China, or for anything but their own private gain, for which they are ready to dishonour the good name of their country, to evade or break treaties, to forfeit the goodwill of foreigners, or even plunge the nation into war. Government officials who collect taxes may be rapacious and dishonest, but their rapacity and dishonesty has a limit—the fear of losing their posts—but to the rapacity and dishonesty of the farmer there is no check; the worst he has to fear is not obtaining a renewal of the farm; this is no deterrent, and he does not mind destroying the trade and exhausting the source of revenue, provided he makes a profit during the time he farms it.

What is the best way to prevent fraud on the part of tax collectors, so that the whole of the money collected from the people shall reach the Government treasury? The tax collectors should be paid adequate salaries, fixed in amount and regularly issued, the juniors receiving less and the seniors more; if the former conduct themselves well, they should, as vacancies occur, be promoted; the seniors, when they grow too old for work, should be retired on pensions. The hope of a certain competency would reduce the temptation to dishonesty. Defalcations should be met with severe punishment, deep disgrace, and instant dismissal. Defalcations should be made easy to detect by minute accounts, which should be carefully and continually scrutinised and periodically published, so that every taxpayer should have the opportunity of knowing whether the tax he pays is credited to public account. Measures should be taken that the tax collectors and the persons who make out the accounts should not have the handling of the money, and for this purpose the tax might, when in small amounts, be collected by means of stamps, to be obliterated as receipts, every officer to be accountable for the face value of the stamps served out to him; or by means of cheques paid into the

Prevention of fraud.

Government banks. The tax collectors giving receipts for the taxes on production of the bank vouchers.

Rates.

In the West, a distinction is drawn between what are called *taxes* and what are called *rates*. The first are expended for the good of all the nation, the second for the good of special localities. Of the former are the taxes levied for the expenses of the army and navy, the expenses of the administration of justice, the pay of Government civil service, the court expenses of the chief of the State, the building and keeping in repair Government offices. In some countries, railways and police are provided for out of the Imperial taxes. Local rates are generally applied to education (though often aid is given also out of the Imperial taxes), roads, light and water supply, sanitary works, relief of the poor, provision of allotments, &c. Local rates are differently levied according to the area in which they are spent. Much as in China, there is Imperial taxation, provincial taxation, and municipal rates levied in a prefecture, district, or parish. In the West we have counties, division of counties, parishes, vestries, &c., each with municipal officers elected by the ratepayers; sometimes for one year, sometimes for a longer period; each set of men elected have their several powers and several objects on which they expend the rates; if they are extravagant, or if they do not spend the money to advantage, they are not re-elected. China, in her divisions into provinces, tai, prefectures, hsien, sze, and pao, has all the materials for inaugurating municipal institutions, and she has in her gentry and elders the machinery for municipal councils; what is wanted is an Imperial command compelling the municipalities to provide good roads, in the same way that commands are given for the reparation of canals and embankments, to provide good education, good water supply, good sanitation, and giving the gentry and elders power to levy the rates. The people would discover the advantage the expenditure would confer upon them, and would willingly subscribe the necessary money and work. The money being all spent in the locality close to their doors, they would see that it

was duly expended ; the property of the rich would be made more valuable, the poor would not object, because the wages would come to them.

The same principles apply to the levying of municipal rates as to the collection of Imperial taxes, accounts of receipts and expenditures should be published and audited. The rate collector should be adequately paid, and receipts should be granted to the ratepayers. Any fraud on the part of the rate collectors should be rigorously punished.

On what objects should the Imperial taxes and municipal rates be spent, so as most to benefit the tax and ratepayers ? And how should they be spent to get the most value for the money ?

Mode of
spending
taxes.

Self-preservation is the first law of nature, both as regards the individual and the associations of individuals called nations. The first object towards which taxes should be devoted are the military and naval expenditure necessary to protect the nation from foreign enemies and foreign invasion, and the diplomatic service, whereby disputes between nations, which are liable to lead to war, can be adjusted peaceably, and whereby the friendship of foreign nations can be obtained and preserved.

Self-preser-
vation.

In this sphere *taxes should be spent to maintain national rights*. A nation's rights are, briefly: self-preservation, to choose its own form of government without dictation from foreigners, to do everything that will render itself prosperous and strong, to have such a military and naval system, and to build such fortresses on its own territory as it considers necessary, to adopt such commercial system as it may consider profitable, to pass such laws as it may deem wisest without being dictated to by foreigners. Every nation to maintain its rights must have an adequate naval and military force.

The next object on which taxes should be spent is the protection of the rights of the individuals who belong to the nation, both abroad and at home ; abroad by appointing ministers and consuls, who will bring any infringement of these rights to the notice of the local authorities ; at home by paying the expense of making good laws, good police, learned and honest judges, &c.

Rights of
individual.

Industrial rights have three spheres—rights of person, rights of property, rights of reputation—in all these spheres there should be good laws to protect every member of the nation, and police and judges to enforce these laws; besides the right to be protected from killing, maiming and assault, threats and undue constraint, there should be laws to protect the people of a nation against disease and sickness, accidents, hunger, &c. It is desirable to make sanitary laws, and pay sanitary inspectors to see that these laws are carried out, to make laws minimising the dangers of perilous occupations, and to pay inspectors to see that these laws are carried out. Such in the West are laws regulating mines, factories, ships, and railways.

With regard to the protection of a man's property, the rule should be that everybody should have the right to use his own property in any way he pleases, provided that in doing so he does not injure others. Laws have therefore to be made to restrain the poor from robbing or stealing from the rich, and to restrain the rich from injuring the poor. The objects of laws are to prevent wrongs by deterring people from committing them; to prevent parties aggrieved attacking their aggressors, by giving them a legal and peaceful remedy for every wrong committed; and to put an end to litigation by defining what are the rights of each individual. In the West, the persons belonging to various trades and professions study the laws relating to their own trade and profession, so as to conform to the penal laws, and to ascertain what are their rights and responsibilities under the civil laws.

There should be laws to protect a man's reputation, not only by punishing those who slander and libel him, and by making them pay him compensation for any pecuniary loss their slander or libel may have inflicted upon him, but also protecting his reputation by not allowing others to use it, or his trade marks, without his consent.

Inherent
defect of law.

All human laws have an unavoidable deficiency; there is a large and, perhaps, the most important sphere in which they

can have no operation ; no human laws can be made to control the thoughts of the heart. While human laws can be made to repress crime, and, in a minor degree, vice, they cannot be made to enforce the practice of the higher virtues—generosity and gratitude for instance. Besides the tribunals of law, two other tribunals are desirable—the tribunals of public opinion, which should be more exacting than the tribunals of law, and which should condemn many actions which are not punishable, and which should reward many actions which are not legally obligatory ; and the tribunals of conscience, which every man carries in his heart, and which condemns him for unkind and impure thoughts. It is to the interest of a nation that its Government should do all it can to elevate the tone of society, and to awaken the conscience of each individual. This can be done by the endowment of education, and of religions that inculcate a high morality.

The principal objects on which taxes should be spent are : the navy, army, police, the chief of the State and his court, the civil services, legislation, judiciary penal establishments, public buildings, means of locomotion, light and water, sanitation, inspectors, relief of the poor, education, and religions, &c.

The total amount that a nation should spend on all these objects, and the amount it should allocate to each, depends on many factors, of which the following are the most important : the wealth of the nation and its peculiar conditions. The nation that spends more than is necessary on any of these objects is incurring an unnecessary waste, and is, to the extent of its waste, impoverishing the nation. The nation that spends too little on any of these objects is endangering the security of the nation, and impeding it from attaining the degree of wealth and happiness of which it is capable. A due amount should be spent on the chief of the State, in order to maintain the dignity of the nation in the eyes of foreigners and natives. A due amount should be spent on the army and navy, to prevent aggression by foreigners and revolt by subjects ; a due amount

Amount to
be spent.

should be spent on legislation to attract the wisest of the community to be legislators ; a due amount should be spent on the judiciary to attract men of ability to be judges, and to place the judges above temptation ; a due amount on police and penal establishments, so that punishment may be deterrent without being cruel, or, in the words of Mencius, that punishments may be light ; a due amount on public buildings and arts, to encourage artistic tastes among the people and for public convenience ; a due amount on the means of locomotion, such as roads, &c., as to facilitate the circulation of commodities. As to whether railways should be built and managed by the State, that must depend on the peculiar circumstances of each country. State-built railways have this advantage over railways built by private enterprise, they are more useful for military purposes ; on the other hand, railways built by private enterprise are apt to give a greater return for the outlay, and are generally more economically managed than State railways. What is a due amount to spend on lighting the roads must depend on the amount of traffic. Light enables work to be carried on by night as well as day ; in the northern countries, in winter, the days are very short, and light in such countries in the streets and roads is now felt to be a necessity. A good water supply is a necessity in order to maintain the health of the inhabitants of large towns, and in countries like India, which are subject to droughts, for purposes of irrigation. In the province of Chekiang the Chinese have wisely spent, and spend large sums in canals, which serve for both communication and irrigation.

It is to the interest, both of the small area like the district and to the nation, that everyone within its borders should be educated ; it is right, therefore, to devote both taxes and rates to education, but the contribution of the State and municipalities should not entirely relieve parents of their responsibility to educate their children. If China should pass a law making education universal and compulsory, the funds could be raised probably from the contributions of families and tribes through

the committees of the family temples more easily than by taxes or rates. With regard to the advisability of endowing religions, different opinions are held; there is no doubt that the religious sentiment, leading men to acts of virtue, is a valuable source of the wealth of nations, but it is argued that the religious feeling of individuals is so strong that the teaching of religion may be left to private enterprise without aid from the State. In the United States, where there are no State endowments, there is no lack of religious teaching. There is another difficulty with regard to the State endowing religions, namely, that in many nations people belong to different religions. In France this difficulty is got over by what is called "concurrent endowment"—that is, by endowing all the religions in France; in Russia and other countries in the West, by choosing one Church as the State Church, and endowing it. Spain, and still more Spain's colony, Manila, undoubtedly spend an excessive portion of the revenue on religious endowment; the number of priests, monks, and nuns who consume without producing wealth is greatly to the detriment of Manila. The amount of revenue spent on inspection should depend on the habits of the people: inspectors of food, inspectors of factories, inspectors of mines, inspectors of schools; sanitary inspectors, to see that the laws relating to health are carried out; of railroads, to see the proper appliances are used and proper precautionary measures adopted; inspectors of ships to see they are properly built, manned, and officered, and not overloaded, &c. In England it is a noticeable fact that the people employed in factories and mines are constantly asking the Government to appoint more and more inspectors, and that the capitalists who own the factories and mines, as a rule welcome inspection.

China, when she has established factories and mines, when she has a mercantile marine, &c., will have to study the factory laws, mining regulations, merchant shipping laws of various nations, in order to enable her to enact such laws on the subject as may be most suited to her needs and conditions.

The question of what amount of revenue should be allocated to each object is a question for the nation to decide. To enable it to decide wisely, it should study the arguments of the various advocates of particular objects, and see how far their views have obtained in other nations and with what effects.

How to get
best value for
money spent?

Lastly, how can the money allocated to the different objects be spent in the most economical way—that is, produce the most efficient possible result?

In some countries every man is bound to serve as a soldier for sometimes two, sometimes three years; in such countries the whole male population are trained to arms. Some people assert that the country, in losing the wealth-producing labour of every male for the period of service, is paying too heavy a price for the army; others assert that the military training is itself a moral and physical education, and that the time spent in the army is not wasted. In England, where only a small army is required, it is recruited by voluntary enlistment, and, in order that as many men as possible may be trained to arms, men are only enlisted for a short period, and then changed. In England wages are high, and the pay of soldiers is small: the consequence is, the men who enter the ranks are generally young and unskilled, and have difficulty, when discharged, in finding other employment. The sailors, on the other hand, are trained from the ages of 14 to 18, and then enter the navy for a period of 10 years, which they can extend to 20. The various occupations of a sailor's life cause him to have skill and intelligence, and he has no difficulty in finding employment after his discharge. Besides the army and navy we have a militia, reserve force, and volunteers. The first consists of country people who only train as soldiers for a portion of the year; the second consists of discharged soldiers, who are given a small fee to keep themselves in readiness to serve when called upon; and the third consists of men engaged in other business, who are not paid, but who devote their leisure time to training as soldiers as a recreation.

The officers of the army and navy enter the service young,

and, unless they rise to a certain rank, have to retire at the ages of 40, 45, &c. When they retire they are given a small pension. The pay of officers is very small, because in England, and on the Continent generally, the military and naval professions are very popular, being highly honoured. The examinations are very severe, and continue for some time after a man has entered the services; if he cannot pass these examinations, he has to retire. The sons of emperors and kings and of the highest nobles enter the army and navy, which consequently have in them men of great talent and capacity.

China is differently situated to Western countries; she does not need a great army. Wages being low, she could at a small cost obtain an army of men, large enough for her needs, in the prime of life. She could also easily raise a reserve force by training the agricultural villagers during winter when they are idle. It is not the men, it is the officers that are China's difficulty. Until the better class of Chinese put their sons in the army and navy as a career, China never will obtain an efficient military force. The pay given to the troops, the money spent on ships and guns, will be wasted unless China trains her naval and military officers. High pay alone will not produce the right men. To induce the right men to enter the profession and to be zealous in it, the profession must be held in honour. No nation that despises military men will have an army worth respecting.

To make a military force effective every officer should serve in subaltern positions, and should be promoted by seniority, with occasional special promotion for distinguished ability. The sons and grandsons of our Queen have served in our army and navy; no favouritism was shown them; they had to pass the examinations and win their promotion by merit.

To make an army and navy effective there must be constant drill, rigid inspection, good military equipments, which should not be purchased until they have passed the inspection of experts. Any officer, civil or military, receiving a commission on the purchase of military stores should be cashiered and punished.

The same rules apply to the civil service. To render it efficient there should be stringent examination before entry into the service, another examination after a few years of service, to show that the officer had been studying what is necessary for the discharge of his duties. There should be a fixed salary adequate for a man's sustenance, and a hope of promotion. The least dishonesty or falsification of accounts should lead to a man's instant dismissal. The only way to spend the taxes economically is to make it to the interest of everyone employed by the Government to be industrious as well as honest; to select capable men and weed out the useless; to pay fair rewards for the "work done," which necessitates that there should be payment in promotion and honour besides payment in money. Capable men will join a service on small pay in hope of promotion; they are willing to forego riches to obtain honour and esteem. In the United States the army and navy are not so highly esteemed as in Europe; the consequence is, the United States has to pay its officers and men double what it is necessary to pay in England. As Mencius says, "It is not the desire of profit that should be appealed to; it is the heart"—that is, the sentiment of duty, and the desire to obtain the esteem of one's fellows.

CHAPTER XIV.

Diffusion of Wealth.

THE object of increasing the wealth of nations is to increase the happiness of mankind. The object in making a nation rich is to increase the happiness of the inhabitants of that nation. To attain this object two things are necessary:—Firstly, that the aggregate wealth of the nation shall be great enough to be capable of providing the means of happiness to the inhabitants. Secondly, that the wealth shall not only be capable of providing the means of happiness, but that it should also actually do so, and this can only be done by a righteous diffusion of wealth.

Object of
wealth.

In the previous chapters we have considered how the aggregate wealth of nations can be increased; we are now about to consider how it should be diffused.

A righteous diffusion of wealth has been defined as a division of wealth that "*causes the greatest happiness of the greatest number.*" This definition is useful as a general rule, but it is not accurate, and when taken too literally has been found to be mischievous. It sacrifices too much the happiness of the minority to the happiness of the majority. If the interests of the minority are duly considered, it is a mere truism to say one ought to promote the greater happiness of the greater number. A society in which all the wealth is absorbed by 10 per cent. of the inhabitants, leaving the other 90 per cent. in bitter poverty, is not in so wholesome a state as a society with less aggregate wealth, where 90 per cent. of the population are well off and 10 per cent. are in bitter poverty and dying of starvation; this second society is not in so wholesome a state as a society which has still less aggregate wealth, but where the

Greatest
happiness of
greatest
number.

whole population lives in a fair degree of comfort. The object of the diffusion of wealth should not be merely the greatest happiness of the greatest number, but the greatest possible happiness of all.

Some people think that the greatest happiness of all is to be obtained by an equal distribution of wealth among all. This is called "communism." Whenever communism has been tried in the past it has failed to promote happiness, and this for several reasons. First, many objects of wealth are indivisible; their value is either destroyed or lessened by division; such are palaces, jewels, pictures, rich garments, &c. Next, if the division of wealth was by compulsion equal, all inducement to work hard, to exercise self-denial, to invent labour-saving machinery, would be taken away. The healthy spirit of emulation would have no sphere. The industrious would become indolent, and the lazy still lazier. If a man can work it not only adds to the wealth of the community that he should be made to work, but also adds to his own happiness. Labour, which is a curse to the savage, is a blessing to the civilised man. Study, which is irksome to the child, when habits of study are acquired becomes a delight to the mature man. The unequal diffusion of wealth is just, because it gives to each man the due reward for his labour. The man with great talents, who has employed them well, becomes the ruler of 10 cities; the man with less talents, who has used them well, becomes the ruler of one city. This is not only a just reward for the nature of the work done, but it also benefits the people ruled, as by it the man with the greater wisdom and greater power of work has the greater sphere of influence and power. It is also productive of the greatest possible happiness; a full "shêng" measure is as full as a full "tou" measure, though the "tou" measure contains 10 times as much as the "shêng" measure. The ruler of one city, who devotes all his energies to ruling one city, is as happy as the ruler of 10 cities, who does the same. Each man is happy, and diffuses happiness according to his capacity. There are, as Mencius says, "occasions when a meal of rice is

too great a reward, there are others when the bestowal of a kingdom is not too great a reward." Hence the religious teacher, who lately said there should be no millionaires, and the workman philosopher, who said no man's service was worth more than £500 a year, were both mistaken. It is to the interest of the nation that there should be in it a few millionaires and many men with over £500 a year. The reward for having done work well is being given more work to do, the reward for having gained wealth is the gaining of more wealth.

While it is to the interest of the nation and the world at large that wealth should be unequally divided, it is not to the interest of a nation or the world that anyone should be allowed to die of starvation; nor is it to the interest of the nation or the world at large that any large numbers of human beings should be in dire poverty. Starving and poor people, having nothing to lose by rebellion, crime, and theft, are tempted to hate and envy the rich and to rob them. It is right, therefore, that the rich should pay a ransom to the poor, both for reasons of expediency and on moral grounds, in order that they may have security in the enjoyment of their riches and satisfy the dictates of their conscience. The relief of the poor, in so far as it is based on grounds of expediency and public benefit, should be enforced by the State; in so far as it is based on moral grounds, it should be left to the individual. We have thus two manners in which wealth can be diffused: compulsory diffusion of wealth, or *diffusion of wealth by the operation of law*, and voluntary diffusion of wealth, or *charity*.

It is a natural law for riches to accumulate in a few hands. The people in whose hands riches have accumulated are called capitalists; they are always under the temptation, in their desire for gain, to reduce the wages of the working classes below the requirements of fair reward for work done, and as it is necessary for the man who has no capital to work for a living, there is always the danger of the rich man taking advantage of the poor man's necessities and driving a hard bargain with him, and obtaining an unfair share of the result of their joint

labour. The soreness of feeling that such unfairness leads to, is a danger to the tranquillity of the State, and it is often, therefore, expedient to pass laws compelling the more greedy capitalists to treat their labourers with the same degree of generosity as an enlightened regard for their own interests has induced the wiser capitalists to treat theirs.

Lastly, it may be expedient for a nation to tax the whole community for the benefit of a particular class, in the hopes that by so doing, this particular class may ultimately benefit the community so greatly as to be worth the outlay.

We have thus seen there are three ordinary modes of diffusion of wealth by operation of law:—

1. *Poor Relief.*
2. *Labour Regulations.*
3. *Endowment of Industries.*

Poor relief.

The law in England for relieving the poor has certain resemblances with the law of China, but the difference of the condition of the two countries, necessitates a different mode of carrying out the law. Both countries are divided into parishes, and in both countries the duty of supporting the poor, who are unable to work, is, in the first instance, enforced on the relatives, and in the second instance, failing relatives (this very rarely occurs in China, and often occurs in England) on the parish. Vagrant poor should in both countries be sent to their original parishes. In England the area of the parish to which the poor are sent is greater than in China, and, while in China the poor man is sent to his original parish and lodged with a relative, in England there is a "union" of parishes which provide homes for the poor, called workhouses, in which not only the poor of the parishes of the "union" are relieved and housed, but which also give temporary, or, as it is called, *casual* relief to persons passing through the parish. In China there is no system of giving casual relief to wayfarers. Unlike China, nobody in England need starve or be hungry; a hungry man has only to go to one of the workhouses established throughout

the country, and he will be fed and lodged. If capable of work, he will have to do some work; if incapable of work, he will be fed and lodged without doing work, and be passed on to his own parish for permanent relief. The food given at the workhouses is wholesome and nutritious, but not agreeable to the palate; the clothes supplied are warm, but not comfortable; to prevent the birth of pauper offspring, husbands in the workhouses are separated from their wives, and, to prevent laziness and the workhouses being made pleasant retreats for the idle, all inmates of workhouses are placed under irksome regulations and are treated with little respect. Hence workhouses are loathed by the English poor, who do their utmost to avoid them. Destitute children, mostly the offspring of vice, are brought up by the workhouses; whenever the fathers of such children can be ascertained, they are bound to support them. The expenses of building and maintaining workhouses is very great, consequently the "unions" do their utmost to dissuade people from entering them. They do this in two ways: first, by giving help to aged poor who are able to do a little work, but not enough to support themselves; this help is called "out-door relief." There is no objection on the part of the English poor to accept out-door relief; the distributors of it have to be very careful to dole it out so as not to encourage laziness and shamming. The second way is by boarding out pauper children among respectable poor, aged people, instead of bringing them up in the workhouse. This system has a threefold advantage: it saves money, being less expensive than bringing the children up in the workhouse; it provides employment for the poor, aged people, and prevents them being forced into the workhouse; and it provides the wholesome influence of a home for the poor outcast children; it is a system that requires constant and vigilant inspection, not always easy to give.

Besides the direct relief of the poor, it is expedient for Governments to remove the causes of poverty. The principal causes of poverty are laziness, vice, ignorance, and sickness. To prevent laziness, two things are necessary: that there should

Causes of
poverty—
laziness, vice,
ignorance,
and sickness.

be as much fairly paid occupation as possible ; and secondly, that lazy people should be made uncomfortable. With regard to the lazy poor, this is done by their physical sufferings and by strict regulations of workhouses, &c. ; with regard to the lazy rich, this can only be done by elevating the moral sense of the community, and causing a lazy man, however rich, to be despised and regarded with loathing by society. With regard to vice, the national vice of Englishmen, and the inhabitants of northern lands, is "drinking," as the national vice of the Chinese is opium smoking. Where drinking is the national vice, strict measures should be taken to regulate the drink traffic. In some countries, such as parts of Canada and of the United States, all sale of intoxicating liquors is prohibited ; in some countries, like parts of Sweden, the sale of spirituous liquors is made a municipal monopoly : the people who sell the liquor derive no benefit from the quantity sold, and therefore are under no temptation to induce their customers to drink. In England, an abominable practice that used to exist of paying wages partly in spirituous liquor, has been rendered illegal. All places that sell spirituous liquor have to be licensed ; but a bad practice has grown up of "tied houses," that is to say, manufacturers of beer and spirits advancing money to beer shops and gin palaces and forcing the keepers to buy their manufactures, and these people induce people to drink far more than is good for them. It is the opinion of many persons that there should be far fewer beer shops and gin palaces in England than there are at present, that licenses should not be so freely granted, and that the liquor traffic should be under severer control. It would be well if public opinion in England looked on brewers and distillers with less respect than it looks on the more useful and less mischievous traders, such as tailors and greengrocers ; this is not at present the case. For some reason, not easy to understand, brewers are honoured in England, and the profession of making beer is thought more genteel than the making of boots.

With regard to dispelling ignorance, education is a source

of wealth and knowledge is a species of wealth. The forcing the rich to pay for the education of the poor is a diffusion of wealth highly conducive to the welfare of the community. Besides direct and compulsory education, there are various modes of providing an indirect and voluntary education by providing *museums* containing specimens of every sort of plant, animal, fish, bird, and insect known; specimens of ancient and modern manufactures, works of art, and weapons of various nations; specimens of all metals, ores, and soils; specimens of all machinery; by providing *picture galleries*, containing beautiful pictures by the celebrated painters of various countries and of various epochs; by providing *libraries* containing the books of all nations, *reading rooms* containing books and newspapers; and opening these museums, picture galleries, libraries, and reading rooms free to the poor, on the days and at hours when the poor man is likely to be at leisure, so that without paying anything he can study botany, zoology, ichthyology, ornithology, entomology, archæology, geology, mechanics, painting, drawing, sculpture, &c.; read any book on these subjects and on history, law, and all the sciences, and know from the newspapers what is going on in the world. There are in London and Paris two famous free libraries, to which it is compulsory to send every book published in great Britain and France respectively, and which purchase books published abroad. The British Library contains some millions of volumes, so well catalogued and arranged, with so competent a staff of librarians and messengers, that any book in any language can be got in half an hour for a reader. This library lately bought, at the price of £3,000, a complete collection of the Chinese Shêng. "Fu and Hsien Chi" (Chinese works on local topography); and there is a scholar who gives his whole time to taking care of the Chinese books; he has a staff of attendants who serve out to students of Chinese literature the books they desire to read. Paper, pencil, and ink are provided gratuitously to the reader, a warm and beautiful room to read in, and light to read by; all through England, in

the provincial towns, there are smaller free libraries for the use of students.

To do away with sickness as a cause of poverty, free hospitals and infirmaries are established to cure the sick and wounded as quickly as possible and to treat women in childbirth, so that the patients may quickly recover and not be long idle. Measures are taken to prevent people becoming sick by carefully attending to the drainage and water supply of towns, by providing wholesome artisans' dwellings, by providing parks, open spaces, recreation grounds in the towns, with bands to play music in these parks. Regulations are in force to prevent the spread of infectious diseases, and in some countries of contagious diseases also.

Owing to all these measures, poverty has perceptibly decreased in England; the native poor, though still more numerous than is desirable, are fewer in proportion of the inhabitants, and not in such dire distress as in many other lands. One consequence of this is that the poor of other lands flock to England in great numbers and swell the numbers of paupers and criminals. Such pauper immigrants are not allowed to land in the United States, France, Germany, Spain, &c. It is possible England will soon have to pass a law to prevent their landing in England.

Relieving
temporary
poverty.

We have spoken of the measures that can be taken to relieve permanent poverty and to remove its causes. When the poverty is only temporary and accidental, other measures can be taken. Thus in occasions of droughts, floods, and famines, when industrious people are thrown in distress, it has been found more advisable, instead of giving money gratuitously, to create work to be done; this, in order that the persons relieved should retain their self-respect and habits of industry. Such work is always found dear and uneconomical, and can only be wisely resorted to in emergencies. A French prefect, of the name of Haussmann, considered that he had found a cure for all poverty by insisting on the rich paying for the employment of the poor in constant work, irrespective of whether the

work was needed or not, and that in ordinary times. "*Haussmannism*," or creating work not for the sake of the work, but to destroy poverty, was found to demoralise the people in the same way as communism and injudicious charity; it was found destructive of the habits of thrift; it created an unwholesome degree of improvidence and deprived men of the wholesome inducement to save that is caused by the fear of poverty.

Hauss-
mannism.

The second way a State diffuses wealth is by *regulating labour*. To understand how State regulation of labour diffuses wealth, it is necessary to bear in mind an axiom of economics, that the *money wages of labour has a tendency to remain steady or to increase*. The labourer, as a rule, only measures his labour in money, and is always trying to get more money for it. He often does not notice that money itself may be cheap or dear. In the time of the Mings, when an influx of gold and silver into Europe made money cheap, the labourer did not ask, as he had a right to do, a bigger money payment, but he asked the Government to pass laws cheapening the price of commodities. The same thing happened when the price of money went down in 1848. In both times things righted themselves; the plentifulness of money caused a demand for labour, which raised the price of labour. This state of things continued till 1870, when the price of gold, the measure of value in England, rose; and the price of all commodities has since been falling, but the gold price of labour has not fallen. The labourer is much richer now with the same wages, say three "*chien*" of gold a week, than he was in 1870 with three *chien* of gold a week, because three *chien* of gold will now buy more food, tea, and clothes, than they would have bought in 1870. The labourer will not consent on this account to receive less gold wages than he did in 1870. Hence, when the operation of law gives the workmen an advantage at the expense of the capitalist, the capitalist cannot recoup himself by cutting down wages. The operation of law in diffusing wealth is not confined to taking wealth from the employer and giving it to the employed;

Regulation of
labour.

it sometimes takes wealth from the employed and gives it to their families.

Truck and
factory acts.

The first laws, on a scientific basis, passed in England for the regulation of labour, were the *Truck* and *Factory* Acts. The former put a stop to the practice of paying labourers in food, drink, and clothing instead of in money; this practice had been abused by the employers of labour making a profit in selling these articles to their employés; in fact cheating them out of part of their wages. [In British merchant ships the masters are still allowed to sell tobacco and clothes to the seamen at a profit. This system, called the "*slop shop*," works great evils; the seaman who does not patronise the *slop shop* may have a bad time; it is to be hoped that at the next revision of the Merchant Shipping Act the *slop shop* will be abolished.]

The *Factory Acts* met an evil caused by the greed of both employers and employed. Women and small children were hired in avocations for which their weakness unfitted them, and for long hours destructive of their health and strength. The employers hired the women and children because they got them cheap, and the husbands and fathers, in their greed for gain, hired out their wives and children to do more arduous labour than they were fitted for. The Factory Acts regulated the ages at which children might be employed and the hours during which children and women might work; they also laid down that the factories should not be overcrowded, that they should be healthy and well ventilated. [The first Factory Acts were very unpopular; they were carried by the personal energy of Lord Beaconsfield and Lord Shaftesbury; the former, as a young man, had determined to follow two objects in life—to improve the condition of the poor and to increase the influence of the Crown; he lived to accomplish both objects, and now he is dead. Primrose Day indicates the national gratitude.]

An effort is being made to carry factory laws a step further and not allow adult men to work over eight hours a day; the advocates of this change in the law think that if the law was passed there would be more employment; this, however,

is very doubtful ; what would probably happen is that the cost of production would be increased and the demand for labour would be lessened. For instance, houses costing more to build and repair, people would live in smaller houses and postpone repairs and alterations, and there would be less and not more employment for the bricklayers ; still more would the rise in the cost of production of articles that can be bought from abroad handicap our native workmen and cause less employment, and more still in commodities we sell to foreign countries ; other countries with longer hours of labour would be able to undersell us. Besides, except in a very few and arduous trades, eight hours a day is scarcely enough for work, either morally or physically. Lastly, if such a law were passed, it would be exceedingly difficult to enforce it, and the passing laws that cannot be enforced is highly detrimental and demoralising.

Another way of diffusing wealth by the regulation of labour is, in dangerous employments, such as mines, and where machinery is used, making the employer responsible to support the employed during the time they are laid up by accidents, and to make a provision for the families of those killed. In order to discourage recklessness on the part of the workmen, some provision has to be made to relieve the employer of responsibility, if the accident was caused by the fault or gross carelessness of the workmen. At one time it was thought advisable to induce the workmen putting pressure on their fellow-workmen to be careful, by enacting that if the accident was caused by the fault or carelessness of a person in the same employ, the employer was not bound to pay compensation. This proviso of "*common employment*" was found to be hard on workmen, as the workmen could not always control their fellow-workmen, and could never prevent the managers and overseers being careless. A new law has now been passed abolishing the proviso of the *common employment* and fixing the limit of the employers' liability. This new law has met the approval of both workmen and employers ; of the former because it practically raises their wages by the amount of

Dangerous
employ-
ments.

insurance they would have to pay for similar benefits; of the latter, because the fixing the limit of their liability they know exactly what are their responsibilities and can ensure against them, and because litigation to fix the amount of compensation will be avoided.

It would be a good thing in the next revision of the Merchant Shipping Act to apply the same principles to the dangerous employment of merchant seamen. The higher class British shipowners are very generous to their seamen and officers; any man sick, whether his sickness was caused by his own fault, or in the service of the ship, instead of being dismissed, is cured at the expense of the shipowners, who continue to pay him wages all the time of his sickness. These shipowners give generous holidays, during which wages are still paid; everybody in the employ of these companies is loyal to his employers; the vessels are seldom wrecked, and so well cared for that their bills for repairs are comparatively small. These good shipowners' vessels perform voyages quicker, and are more quickly turned round than bad shipowners' vessels, because they both get a better class of seamen, and because the seamen are more encouraged to work their hardest; the seamen of good shipowners very rarely commit offences, and give the consuls abroad no trouble. The good shipowners therefore gain by their generosity. Unfortunately there are still bad shipowners, comparatively few now, and decreasing in numbers, who grind down and oppress their seamen, who underpay the masters and force them to supplement their wages out of the profit of the slop shop, who, when seamen are sick, at once discharge them, and try to get rid of them if the vessel is docked, and to avoid paying hospital expenses for injuries and sickness, who feed the men on cheap provisions and issue the smallest quantities of these they dare. The ships of such bad shipowners are often wrecked; the bill for repair is great; they get a bad class of seamen, and if they do happen to get good men, such men are not encouraged to behave well; the seamen of bad shipowners give constant trouble to consuls

abroad. The bad shipowners lose by their meanness. It would be a good thing if the bad shipowners were compelled to behave almost as well to their employés as the good shipowners already do voluntarily, out of enlightened self-interest. That such could not injure the shipping trade, or place British ships at a disadvantage as compared with foreign, is proved by the fact that the best British shipowners, those most successful, already behave more generously than it would be proposed to render obligatory.

We now come to our third form of State diffusion of wealth, viz., the taxing the whole community to support particular trades. *State aid to industries.* State aid to industries.

Most nations consider it so important to have a mercantile navy of their own, that they encourage the shipping industry by subsidies. Thus the Chinese Government aided the "China Merchants' Steam Navigation Company" by giving steamers and by employing it at a high rate of freight in carrying rice to the north. Japan is giving very heavy subsidies to the "Nippon Yusen Kaisha." France and Germany both subsidise their mail lines of steamers. Economically such subsidies are only justifiable when they foster an infant industry, which will be able to dispense with a subsidy when it matures. But other than economic motives come in. For purposes of self-defence it is necessary that a part of the population should be trained to a seafaring life. In this case subsidies to shipping must be considered in the light of military expenditure—necessary waste.

The giving *bounties* on exports is only justifiable when they are given to foster infant industries; if the bounties are made permanent, not only is the native country paying tribute to the foreign consumers, but it is lessening the wealth of the world, by causing something to be produced with more labour at home which could have been produced with less labour abroad; the amount of labour wasted is a loss to the world.

CHAPTER XV.

Charity.

Individual's
duty goes
beyond
dictates of
law.

Distinction,
duty of State
and of
individual.

It has already been stated that the tribunals of law cannot enforce the practice of the higher virtues. The action of the tribunals of law should be supplemented by the action of the tribunals of public opinion, and the tribunal of the individual conscience. This truth is specially applicable to acts of benevolence. A nation is a different subject matter to an individual, and though both a nation and an individual are bound to act in accordance with morality, the difference between a nation and an individual imposes a different rule of morality on the nation to what it imposes on the individual. In the matter of the diffusion of wealth the Government of a nation, which is in the position of a trustee, is bound to be just first, and only generous to the extent that such generosity benefits the nation at large. An individual is likewise bound to be just, but he is bound, too, to be generous to the full extent of his ability, and he can be generous as long as his generosity benefits a class, a few individuals, or even one individual, without benefiting the nation at large; all he has to take care of is that he does not injure the nation. A wise Greek philosopher in the time of the *Chow* (Plato) likened a man to a chariot, with the horses and charioteer. The chariot was his conduct, the horses his emotions, and the charioteer his reason. "It was right," he said, "that the emotions should be the motive power of conduct, but the emotions should be guided and checked by reason." A wise Swiss philosopher, in the time of Kien-lung (Vattel) said: "Generosity and friendship are equally virtues on the throne as in the cottage, but a wise and good king should, while cherishing these virtues in his private

life, in his public capacity restrain his emotions, and only be guided by the good of his people."

However benevolent to the poor the action of the State may be, there must always be left a sphere for private benevolence. It is not only unlikely that State benevolence should be so great as to destroy private benevolence, it is also undesirable. As the Chinese philosopher says: "The benevolence that destroys opportunities to be benevolent, is excessive." Or, as the wise Dutch jurist (Grotius), in the time of the Ming, said: "There are two kinds of duty—that commanded by Heaven, the neglecting of which would be great wickedness; and that which, though not directly commanded, is advised and enjoined as the more excellent way, the following of which is the mark of a virtuous and exalted mind, and which will not miss its reward."

The first principle to be observed with regard to charity, is that the motive of its exercise should not be the gratification of our own emotions, however amiable, but the good of our fellows.

Proper
motive of
charity.

If we allow our emotions of pity a free course, without guiding and restraining them by our reason, mischief will as surely result as if the horses of a chariot were allowed to gallop without being guided or checked by the charioteer. If we give money to beggars they will probably spend it on drink or opium, and do themselves and society injury. If we are moved with pity, unrestrained by reason, and give money to people who are mutilated, we encourage lazy people to paint fictitious sores, and even worse wicked people to mutilate their children, or other people's children, to excite pity, and sending them out to beg. If we, when we hear or read a plausible tale of woe and sorrow, at once give money without enquiry, we encourage the telling of lies, and the imposture of the professional writer of begging letters. The mischief of indiscriminate charity is deep and manifold. In the first place, money recklessly given robs the fund from which wise charities are drawn. In the second place, by encouraging imposture it creates a feeling of distrust,

Mischief of
indiscrim-
inate
charity.

and dries up the sources of charity; people are so afraid of being cheated that they will, if imposture is rife, often refuse to believe a true story of distress, and will decline to relieve meritorious cases. In the third place, indiscriminate charity encourages laziness, destroys the manly independence of character, and, what is worse, pauperises a people. I remember a case of this. A rich gentleman in England determined to make all the people in a village happy; he gave them beautiful cottages, beautiful furniture, beautiful clothes, and beautiful flowers. The villagers having obtained all these things for nothing, did not really care for them; for it is a characteristic of the human mind to find greater happiness in the pursuit of objects than in their attainment, and the happiness of attainment is in proportion to the labour spent in pursuit. Instead of working, the villagers made a living by showing off their gifts, for many people flocked to see the "model village"; and in the hopes that the rich gentleman would always give them more gifts, recklessly spent their money on drink and vice. Their children were not properly educated, and were perverted by the evil example of their parents into habits of idleness and dissoluteness. The many thousands of dollars spent by that rich gentleman in charity were a curse and not a blessing.

In history we have a still more appalling warning of the evil effects of indiscriminate charity, in the story of Rome during the time of the "Division of the Chinese Empire."

Rome, owing, to her wise laws, good administration, courage and industry of her people, had become, in the time of the Han dynasty, probably the most powerful and rich country the world has ever seen. She was as renowned for poetry, literature, and art as she was for the courage and discipline of her army and navy, and for the skill in manufacturing implements of war. In the time of Wang Mang, one man, the nephew of a successful general, usurped all the power; both he and his successors were jealous of men of ability, and instead of employing the wealthy, the noble, the wise, and the learned to help them govern, surrounded themselves with low and servile flatterers.

The rich and noble, having no honourable career open to them spent their time in idleness and ignoble pleasures. The poor followed their example; honourable work was thought degrading. To please the people the rich established a system of free meals and free entertainments for the poor, the expression for which ("*Panem et circenses*") has passed into a proverb. The whole Roman population was demoralised by these free meals and free entertainments; they ceased to enter the army and navy, or to till the ground. The former professions were filled with foreigners, and the latter by slaves. Roman society became corrupt and vicious; it lost its taste for innocent amusement, and only cared for the cruel sport of the arena, where enemies taken in battle, criminals, and unpopular persons, were thrown to be devoured by wild beasts kept for the purpose, or made to fight and kill each other, that their dying agonies might amuse the demoralised people. There is a saying, "*Deterioratio optimi pessima*," as Rome in the zenith of her glory was the greatest nation the world has seen, so in her perversion she was the worst instance of vice and corruption. Her wealth attracted the cupidity of the neighbouring barbarous tribes, the life of idleness and luxury had sapped away the virtues of the Romans, courage and patriotism had departed. At first she tried to buy off the barbarians, but this only excited their cupidity more. Finally, Rome, with all her splendid weapons, all her knowledge of war, fell before hordes of badly-armed, ignorant barbarians.

Many people still give charity in doles, that is, periodic distribution of food and money to the inhabitants of certain localities. I see lately a rich man in England has given \$400,000 to his native village, the interest of which is to be divided for ever among the inhabitants of that village. He had better have burnt the money or thrown it into the sea; then, if it had done no good, it would have done no harm; as it is, it will demoralise the inhabitants of the village. As Mencius says, "There is a benevolence which is not true benevolence."

**Proper objects
of charity.**

Having pointed out what are mischievous kinds of charity, it remains to show :—1st. What are beneficial modes of charity. 2nd. What means can be taken to secure a plentiful flow of charity in proper channels. 3rd. What measures can be taken to ensure that these charities shall be honestly and economically administered.

The first general principle with regard to the proper objects of private charity, is that in any sphere where a Government can legitimately, in the interest of the whole nation, from motives of *expediency*, direct a diffusion of wealth, there individuals may find a sphere for charity in supplementing the work of the Government from motives of *kindness* to benefit, not necessarily the nation at large, but also particular localities and particular individuals.

In the second place, while Government-directed diffusion of wealth should confine itself to benefiting the nation of which it is the trustee, individual charity should embrace all humanity in the sphere of its kindness.

In the third place, while Government-directed diffusion of wealth should confine its attention in great measure to human beings, individual charity should include all sentient creation in the circle of its benevolence.

“ He loveth best, who loveth most,
All things both great and small,
For the dear Lord, who loveth us,
He made and loves them all.”

For example, in directly relieving the poor the State should make no distinction between deserving and undeserving poor; it should maintain the poor in life, but not in comfort. Private charity can legitimately undertake the task of seeking out cases of deserving poverty and of maintaining the deserving poor, not only in life, but in comfort. Even to the undeserving poor, especially the aged, private charity may give comforts, provided it does so in such moderation as not to demoralise the people. It can give the aged inmates of workhouses little luxuries, such as tea and tobacco. It can relieve the

dreariness and monotony of workhouse life by giving the inmates occasional concerts and theatrical entertainments. It can supplement the workhouses, to which only undeserving poor should be forced to go, by establishing "almshouses," or pretty little houses for the deserving poor, where the aged husband and wife can live together, and still enjoy the comfort of each other's society. It can supplement the outdoor relief, given by the action of law, by additional sums given to deserving cases. It can help the Government eradicate the causes of poverty by crusades against intemperance, by establishing innocent amusements, workmen's clubs, coffee and tea shops, &c., to wean people from the public-houses, gin shops, and opium dens. It can aid the State to destroy the seeds of ill-health by adding to the parks and recreation grounds, by promoting the physical welfare of the poor, by establishing wholesome out-door games and gymnasia for the young, by giving the poor children of the towns occasional trips into the country, and, when delicate, sending them for more or less long periods to the bracing air of the seaside. It can supplement the action of the State as to hospitals and infirmaries by adding to the inmates' pleasures, as well as necessities, toys for the sick children, newspapers and books for the elder patients; by adding to the hospitals, the object of which is to cure people, homes for the incurable, where people afflicted with incurable diseases may pass the time till death in as much comfort as they are capable of receiving.

Private charity can establish deaf, dumb, and blind asylums for teaching those afflicted a trade and industry suitable to their condition, societies for the protection of women and children, societies for preventing cruelty to animals, societies for aiding emigration, reformatory schools for rescuing the children of the vicious and youthful criminals from lives of vice, schools for waifs and strays, training ships to bring up boys as fishermen and mercantile seamen, lock hospitals to rescue fallen women, &c.

Charity may supplement the action of the Government in

eradicating idleness by still further carrying out Government schemes of education, by bestowing prizes and scholarships as rewards for industry, by supplying poor people with a higher education than the State scheme makes obligatory, by supplying particular localities with a better class of school than the State compels, by presents of pictures, statues, works of art, curiosities, machinery, &c., to existing national, provincial, or district picture galleries and museums, of books to the existing libraries, by founding more museums, picture galleries, and free libraries, by giving good musical instruments to existing schools, by establishing free lectures, by aiding the dissemination of good books and preventing people buying pernicious books, by what are called "Colportage" Societies, by publishing, at cheap rates and in simple language, useful moral treatises, books on science, &c., by causing the gratuitous distribution of such books.

Private charity may, in times of special distress, give employment to the poor at current wages. In England this is frequently done by rich men hiring the poor to make garden paths for them, to dig gravel, cut timber, chop firewood, &c. This employment of the poor by individuals has not the same demoralising effect that State labour has. I remember in 1890 there was a flood at Hankow, and many Chinese were in great distress; the Chinese authorities established a system of relief, and at the request of my countrymen I asked Mr. Tsai Si-yung, afterwards Taotai at Wuchang, then the Viceroy's Secretary, what we foreigners could do to help; he gave the wise reply: "Employ as many Chinese as you can at the *current* rates of wages; those you employ will be able to assist their families, and the more you employ the fewer will there be for us to relieve."

In regard to regulating the laws of labour, individual charity can do things that cannot perhaps be legitimately done by Government. Charity can decide only to purchase articles of those shops which pay fair wages to their workpeople and only to employ contractors who deal fairly with their employés. It

can not only foster infant industries, it may temporarily support decadent industries by large purchases of the commodities.

The law of perfection of individual charity is, "*Every individual should work all he can, save all he can, give all he can.*" He is not bound, as the State is, to see that his gifts shall benefit all; he can give to one person, or to a particular class; he has to think of the means at his disposal and to do with them as much good as he knows how to; he may legitimately confine his gifts to a particular place, like his native village, his native province, or to a particular class in his village, province, or country—soldiers, sailors, actors, shopkeepers, coachmen, artisans, merchants, &c.

As an example of beneficent aid given to a particular class, there is a society in England called "*The Girls' Friendly Society*" to help servant girls. In England the servant girls of all classes are not bought, as in China, but hired, and these girls, in the legitimate desire of bettering themselves, try to get high wages, and with this object are constantly changing their places. The Girls' Friendly Society has agents in every town and village in England, and whenever a servant girl leaves her village, the agent of the Girls' Friendly Society writes to the agent at her destination, and if the girl gets sick, or into trouble, the agent helps and advises her. Further, there are special respectable and cheap lodging houses established, where servant girls can stay, when they are out of place, while they are looking for new situations.

An individual need not confine his charities to his own countrymen; he may legitimately extend them to people of all nationalities—missionary societies, medical missions abroad, education abroad, relief of poor abroad, &c.

As an example of private charity extended to men of all nationalities, the "*Labour Bureaus*" of the United States are a good example. These "*Labour Bureaus*" collect information as to the state of the labour market in each and every one of the centres of industry in the United States, and of each and

every trade. A man out of employ and poor, of whatever nationality, has only to go to one of these labour bureaux, and he will be told where he can get work, and, if necessary, he will be forwarded to that place, and an advance given him to support him till he gets there.

**How to
ensure flow
of charity.**

The next question is, how is the flow of charity to be kept up towards good objects? The answer is, by checking and punishing imposture. In England there is a society called the "Charity Organisation Society," which makes it its business to enquire into the working of charities, and into the merits of appeals to the public for charitable aid. This society brings falsehood and imposture to light, and by checking, to a certain extent, charities which are mischievous, creates a greater flow of money to the charities that are useful and well administered.

To prevent charities being abused, or diverted from the purposes for which they were intended, there are officers appointed called "Charity Commissioners," whose duty it is to see that charities are properly applied. In case, as often happens, the object for which the money has been given ceased to exist, or in case there is a change of circumstances, rendering the spending the money in the exact way the founders dictated inexpedient, then the Charity Commissioners can decide in what manner the money shall be spent, so as to, as nearly as possible, carry out the wishes of the donors.

**Administra-
tion of
charities.**

Lastly, what should be the management of charities? There are many charities for excellent objects which, if they are not managed judiciously, will do injury and not good to the community. Such are foundling hospitals. If foundlings are taken and supported without enquiry, they encourage lazy, unnatural parents, divesting themselves of the duty of supporting their own children, and also encourage illicit intercourse between men and women, if the result of such intercourse can be put away in the foundling hospital. All foundling hospitals should use their utmost efforts to discover the mother and father of the foundling, and to force the father to support the child. If the father is dead, the foundling hospital may be

justified in taking the child without payment, in order to remove the temptation to infanticide. Foundling children should be reared and educated by persons experienced in such matters, and the institutions should be frequently visited and inspected by committees of persons unconnected with the institutions, and these visitors' reports should be published.

All charities, especially foundling institutions, should be open to inspection; all charities should keep detailed accounts, which should be audited by persons unconnected with the charity, and be published for the information of the community. In China it would be well if the Chinese authorities would visit and inspect all Christian schools, foundling institutions, hospitals, &c., where natives are educated, reared, or medically treated, and would report thereon. All charities should publish periodic reports of the work done, the rules and regulations of the charity, the names and addresses of the managing committee, treasurer and secretary, and other officials of the charity.

I have known of cases of charity managers trying to conceal facts with regard to the charity. Such concealment of facts is most mischievous. Thus, a foundling hospital in China concealed, or tried to conceal, the fact of the great mortality among the children. This attempt at concealment gave rise to sinister and unfounded suspicions. It should have published the fact, and explained that in foundling hospitals, from the nature of things, there will always be great mortality. The children, often being the offspring of vice, are weaklings by heredity; besides, Chinese parents do not often abandon their children until they are on the point of death; the children have often been long exposed, long underfed, long uncared for before being taken charge of by the foundling institution.

In China, where the natives are very generous, all that is necessary to create a flow of charity is to point out the proper objects of charity, and inspire the public with confidence in the way the charity is organised and managed.

The subjective value of charity.

We have spoken of the objective value of charity ; one word, in conclusion, as to its subjective value.

The time comes to most of us when faith is dim, and hope as regards ourselves is dead ; it comes to all of us when the evil days come and the years draw nigh, when we say we have no pleasure in them, when desire shall fail, because man goeth to his long home ; then, in those latter days, when we no longer care for anything in life for ourselves, we can find pleasure in doing good to others. If we open the doors of our hearts to charity, we shall find "music within and a song" that shall cheer us to work while it is still day, until the night comes and there is rest.

FINIS.

HARRISON AND SONS,
PRINTERS IN ORDINARY TO HER MAJESTY,
ST. MARTIN'S LANE.

